FINANCIAL TIMES

World Business Newspaper http://www.FT.com
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WORLD NEWS

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Ulster leaders appeal over impasse
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British and US fighters attack Iraq
Four British GR1 Tornado aircraft linked up with US jets to fire precision-guided bombs onto Iraqi air defence sites at Talil, about 170 miles south east of the capital Baghdad.

Lafontaine attacked over tax reform
Oskar Lafontaine, Germany's finance minister, failed to head off criticism from industry of tax reform plans. **Europe, Page 2**

Clinton plans address to the nation
President Bill Clinton is expected to make a new address to the nation about the Monica Lewinsky scandal as soon as the Senate has taken its final votes on impeachment. **US, Page 3**

Prodi upbeat over new movement
Romani Prodi, former Italian prime minister, said his new political movement is the only way to keep the right out of government. **Interview, Page 3**

Timorese guerilla moved from jail
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EIB questions nuclear reactors plan
The European Investment Bank has questioned the need for two nuclear reactors that the EU plans to help Ukraine build as a condition for closing the Chernobyl plant. **Europe, Page 3**

HK moves to defend legal autonomy
Hong Kong's chief executive, Tung Chee-hwa, is to send a senior official to Beijing to help resolve a constitutional crisis over the territory's legal autonomy. **Asia-Pacific, Page 6**

Croatia wins backing for new roads
Croatia has won support from international and domestic banks for its motorway construction plans. **World trade, Page 4**

BBC axes German language service
The BBC World Service is to close its German language service and reduce others. **Britain, Page 8**

BUSINESS NEWS

Metro shares fall after stagnant Christmas sales

Metro, German retailer leading the fight against US competition for the European market, suffered a 7 per cent fall in its share price after a stagnant Christmas. **Companies and markets, Page 15; Lex, Page 14**

Fed-Mogul, US braking systems manufacturer, pulled out of race to acquire LucasVarity, UK car components maker, leaving the field clear to an agreed £4bn cash bid by TRW of the US. **Companies and markets, Page 15; Lex, Page 14**

SmithKline Beecham's head of research and development abruptly left the company in a shake-up at the Anglo-American drugs group. **Companies and markets, Page 15**

Rupert Murdoch's News Corporation and Canal Plus, French pay television company, are exploring pooling European pay television interests. **Companies and markets, Page 15; Lax, Page 14**

South African Breweries plans to raise between £150m and £200m ($328m) in a placing of new shares when it lists on the London Stock Exchange. **Companies and markets, Page 15**

Cheil Jedang, South Korean food and pharmaceutical group, has won a 10-year patent dispute with Roche, Swiss pharmaceutical company. **International companies, Page 16**

Nissan Motor, Japanese carmaker, is to sell a 20 per cent stake in Ikeda Bussan, car seat manufacturer, for Y2bn ($17.5m). **International companies, Page 16**

StoraEnso, Scandinavian pulp and paper group, reported a sharp fall in pre-tax profits after taking restructuring charges of €455m ($514m) in the fourth quarter. **European companies, Page 18**

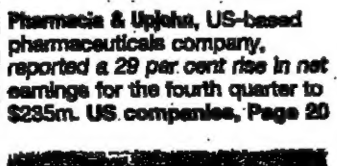
LVMH, the French luxury goods group that recently amassed a 34.4 per cent share in Gucci, may invest in another Italian fashion house, Giorgio Armani. **European companies, Page 18**

India's latest privatisation issue, in telecoms group VSNL, will be priced today at a knock-down price of about $9 a share, reflecting investor concern about government policy. **International companies, Page 16**

Investor, main investment vehicle for Sweden's Wallenberg empire, is shifting to more international and liquid stocks. **European companies, Page 18**

US financial institutions urged Congress to act swiftly to modernise America's ancient banking laws. **US news, Page 4**

Pharmacia & Upjohn, US-based pharmaceuticals company, reported a 29 per cent rise in net earnings for the fourth quarter to $235m. **US companies, Page 20**



Brussels set to block deal on extending duty-free

By Emma Tucker in Brussels

The European Commission will almost certainly close the door next week on any deal with European Union member states to extend duty-free shopping beyond June this year.

France, Germany and the UK are among member states demanding the Commission suspend the abolition of duty-free shopping. But senior Commission officials have decided not to propose any reprieve in spite of intense lobbying from EU capitals and the tobacco, alcohol and luxury goods industries.

The Commission is expected to back the officials' recommendation next week, putting itself on a collision course with member states. At last year's Vienna summit, EU heads of government called for the tax concession to be extended in the interest of jobs.

It would probably now take a unanimous request by all 15 EU members to override the Commission's tough stance. Denmark, Belgium and the Netherlands remain staunchly against extending duty-free beyond June – a deadline agreed unanimously by member states eight years ago.

Brussels plans to reinforce its position by responding strongly to claims by the duty-free lobby that abolition would lead to severe job losses. A Commission report concludes that any job losses will be short-term, sector-specific and more than offset in the long run by jobs generated as a result of scrapping the subsidy.

The Commission is expected to propose possible tailor-made measures to assist those regions and sectors worst affected by ending duty-free.

The original 1991 decision to end duty-free was considered a critical step in the creation of the EU's border-free internal market. Ferries, airports and other duty-free outlets were given seven years to prepare for the change.

During that time, the duty-free industry spent more than €1bn lobbying to have the decision reversed.

Member states such as the UK were until recently resolute in their support for the 1991 decision. They started to waver last year, worried about possible job losses and the general popularity of duty free sales.

But Commission lawyers say an extension would be challenged in court by retailers that do not benefit from duty-free sales. A reprieve would be attacked by cross-border rail services, which, unlike ferries and airlines, do not have the right to sell duty free goods.

"Duty-free affects employment across the whole economy," said a senior commission official. "It is a subsidy to the travelling public, paid for by taxpayers, that distorts competition between retailers and modes of transport."

The International Duty Free Confederation argues that up to 140,000 jobs could be lost as a result of abolishing duty-free. The Commission, asked by member states to look into the impact on jobs, disputes the figure and says its estimates suggest losses will be much lower.

The Commission, sensitive to such claims, is prepared to come up with specific measures to help counteract regional or sectoral problems resulting from the June abolition. It will encourage member states to use the €31bn of community structural funds, as yet unspent by EU states, to take action themselves.

German and French farmers demonstrate yesterday outside the European Parliament building in Strasbourg, eastern France. More than 1,800 tractors blocked the streets in protest at European agriculture policy. Picture: Reuters

Pinochet supporters raise $3m for extradition fight

By Jimmy Burns in London and Mark Mulligan in Santiago

Some of Chile's wealthiest individuals have helped raise more than $3m to finance General Augusto Pinochet's fight against extradition.

The money is covering the legal costs and living expenses of the former Chilean dictator who faces charges of genocide and torture in Spain and is currently under detention in England.

Funds have also been ploughed into a campaign run by Sir Tim Bell, the public relations guru who helped Hernan Büchi, a pro-Pinochet candidate in Chile's 1989 elections.

Sir Tim, best known in the UK for his work with the Conservative party during the governments of Lady Thatcher, yesterday confirmed that his firm Bell Pottinger had been paid £200,000 ($328,000) to cover a publicity campaign designed to back General Pinochet's return to Chile without trial.

"Our strategy has been to communicate with opinion makers in order to counter 23 years of Marxist propaganda," he said yesterday. "We are in favour of reconciliation and not retribution." The general had been "demonised" by the Chilean left, he added.

Opponents of General Pinochet say he is responsible for the deaths of 3,000 political opponents during his time as dictator of Chile following his overthrow of the democratically elected government of President Salvador Allende in 1973.

The bulk of funding is going towards covering General Pinochet's legal costs, thought to be about $2m. In addition, a business supporter is paying £10,000 per month rent and additional insurance on the house where Gen Pinochet is being held.

A panel of seven Law Lords is reconsidering whether Gen Pinochet should be immune from extradition proceedings.

An earlier decision that he was not immune was set aside because of the connections between one of the law lords, Lord Hoffmann, and Amnesty International, which argues for the extradition. A second decision is expected within the next two weeks.

"There are a lot of businessmen who made a lot of money when Pinochet was in power and feel grateful to him for creating such a wonderful economic environment," said Peter Staad, a Dutch businessman who has been helping to co-ordinate the London end of the campaign.

In Chile, the main fundraising effort is being handled by Mr Hernán Briones, whose main holding company, H. Briones, covers interests in real estate and building materials.

Mr Briones, president of the Pinochet Foundation, a private trust set up for the benefit of retired military men and their families, organised the only visit to Chile by Lady Thatcher, in 1994.

Regiment behind general, Page 3

Japan to license contraceptive pill after 30-year wait

By Paul Abrahams in Tokyo

Japan, the last member of the United Nations where the contraceptive pill is unavailable, is expected to license the drug next month.

The move would follow the Japanese government's decision in January to permit marketing of Viagra, Pfizer's impotence treatment, after just six months of deliberation.

Low-dose oral contraceptives have been waiting for Japanese approval for nearly nine years, and the high-dose pill for 30 years. The high-dose drug is available for menstrual disorders.

The central pharmaceutical affairs committee of the ministry of health and welfare is expected to recommend at a meeting on March 3 that the pill should be licensed.

The Financial Times has seen documents showing new guidelines advising doctors on how to prescribe the drug. They are expected to meet medical concerns about its safety.

A new team has been in place since June at the ministry's evaluation and licensing division. Toshiki Hirai, the new division head, is understood to be irritated by criticism of the ministry for allowing Viagra to be marketed and not the pill.

Japanese women accuse elderly male legislators of encouraging the rapid approval of a drug that would aid men's sexual performance while seeking to block oral contraceptives.

"The gender bias is quite shocking. In Japan, there is one rule for men's sexuality, and another for women's," complained Yuriko Ashino, deputy executive of the Family Planning Association of Japan.

The contraceptive pill has been viewed with suspicion by many members of the ruling Liberal Democratic party, many of whom are influenced by rightwing interest groups. They are concerned about Japan's falling fertility rate, the impact on the country's ageing population, and a possible increase in sexually transmitted diseases from couples no longer using condoms.

The Japanese market for oral contraceptives is likely to be small, at least initially. A recent survey in the Mainichi Shimbun newspaper suggested just 7 per cent of the 30m women of child-bearing age – between 15 and 49 years old – would be interested in using the drug.

The pricing of oral contraceptives has not been decided by the ministry. In Europe, the drug is set at about Y500 ($4.43) for a month's pack and in the US at about Y2,000.

Given that a woman uses 13 packs a year and 2.1m women use the pill, it would indicate an initial annual market of between Y13.65bn and Y54.6bn.

WORLD MARKETS

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	9,113.72	(-19.31)
NASDAQ Composite	2,302.10	(-5.68)
Europe and Far East		
CAC40	4,001.98	(-86.58)
DAX	4,796.82	(-107.59)
FTSE 100	5,770.2	(-9.7)
FTSE Eurotop 300	1,164.86	(-3.18)
Nikkei	13,952.40	(+49.74)
US LUNCHTIME RATES		
Federal Funds	4.75%	
3-mth Treas Bills: Yld	4.51%	
Long Bond	98$\frac{11}{32}$	
Yield	5.26%	
OTHER RATES		
UK: 3-mo Interbank	5$\frac{7}{16}$%	(5$\frac{7}{16}$%)
UK: 10 yr Gilt	136.42	(136.60)
BBA Eurolibor	3$\frac{1}{8}$	(3$\frac{1}{8}$%)
Germany: 10 yr Bund	107.32	(107.31)
Japan: 10 yr JGB	98.426	(98.495)
NORTH SEA OIL (Argus)		
Brent Dated	$9.86	(9.885)

GOLD		
New York: Comex	$288.0	(288.4)
London:	$287.25	(286.95)
DOLLAR		
New York: lunchtime		
£	1.6277	
€	0.8806	
SFr	1.4075	
Y	114.085	
London:		
£	1.6290	(1.6368)
€	0.8832	(0.8850)
SFr	1.4102	(1.4167)
Y	114.52	(114.38)
Tokyo Close		Y 115.295
EURO (London)		
$	1.1322	(1.1300)
£	0.6951	(0.6904)
Y	129.654	(129.249)
SFr	1.5966	(1.6008)

London · Leeds · Paris · Frankfurt · Stockholm · Milan · Madrid · New York
Chicago · Los Angeles · Tokyo · Hong Kong

Euro-zone target price €2.15. Prices in local currency as shown

Bahrain	Din1.300	Iceland	IKr285	Oman	OR1.75
Belgium	BFr90(€2.23)	Italy	L3900(€2.01)	Poland	Zl 10.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc320(€1.60)
Croatia	Kn19.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	DKr18.00	Latvia	Ls1.65	South Africa	R16
Estonia	EKr34.00	Lithuania	LIt21.00	Spain	Pta325(€1.95)
Finland	Fmk13.00(€2.19)	Lebanon	LBP3,300	Sweden	SKr20.00
France	FFr14.00(€2.13)	Luxembourg	LFr90(€2.23)	Switzerland	SFr3.50
Gibraltar	£0.85	Morocco	Dh18.00	Syria	S£80.00
Greece	Dr300	Netherlands	Fl 4.80(€2.18)	Tunisia	Din2.000
Hungary	Ft360	Norway	NKr18.00	UAE	Dh13.00

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Germany plans two Holocaust funds

By Frederick Stüdemann in Bonn

Germany has said it plans to set up two funds to compensate for Nazi aggression, one to disburse funds to victims and the other to support future projects to ensure the Holocaust is not forgotten.

The funds, the size and other details of which are to be discussed by Gerhard Schröder, the German chancellor, next Tuesday with the heads of leading German companies, are aimed partly at protecting German companies doing business in the US.

US reaction to the umbrella fund was strongly positive, although most Holocaust campaigners stressed that the process was still at an early stage.

Lawyers said details on how the fund would work would need to be agreed within about two months. The German government's target of beginning the fund in September, the 60th anniversary of the invasion of Poland, was said to be demanding but realistic.

Next Tuesday's meeting will follow talks held earlier this week in Washington between Bodo Hombach, a chancellery minister and Mr Schröder's "fixer, and Stuart Eizenstat, US under-secretary of state. Mr Hombach also met with seven groups representing victims. The issue will also be discussed at a meeting today in Washington between Mr Schröder and President Bill Clinton.

A government spokesman said Bonn hoped the funds would provide "a high degree of legal clarity for German industry in the US".

Rolf Breuer, chairman of Deutsche Bank, which last week published documents revealing it had helped finance the building of Auschwitz, yesterday said he was confident that his bank's $10bn purchase of Bankers Trust would still go ahead as planned, despite the fact that Deutsche is the subject of lawsuits.

Mr Hombach's visit

The funds will be financed by banks and industrial firms who colluded in the Nazi-led seizure of assets and use of forced labour in concentration camps. "It is about the grand-children making good the mistakes of their parents and grand-parents," the government spokesman said.

Campaigners for the Holocaust victims said the German government was playing a vital role, which some described as the necessary "headbanger" in persuading German companies to participate with the fund. They suggested that the case of the Swiss banks, which ended amid acrimony last year with a $1.25bn settlement, would have been resolved much more swiftly if the Swiss government had become involved.

But there are differences in tactics between US campaigners. The World Jewish Congress, the New York-based group that has led the campaign over Holocaust assets, seems happier to rely on inter-governmental talks than the lawyers for Holocaust victims, who have separately launched lawsuits against German banks and industrial companies.

Plan to harmonise taxes wins support

By Emma Tucker in Brussels

The European parliament yesterday backed unequivocally plans to harmonise savings taxes across the European Union, and dismissed UK-led calls to exempt international bonds from proposed legislation.

A clear majority of MEPs also voted to reduce the minimum rate of the planned tax from 20 to 15 per cent.

Although the votes were purely advisory, they sent a clear message to EU governments in support of efforts to plug loopholes that allow individuals to escape taxes by placing their savings in countries such as Luxembourg, which do not tax interest on the savings of non-residents.

But the vote on international bonds came as a blow to British MEPs campaigning to have the international bond market taken out of the scope of the proposed directive, on the grounds that it would otherwise drive international bonds trading out of London and Europe. An amendment proposed by Simon Murphy, a British MEP, calling for their exemption was voted down by 421 to 78.

The European Commission, which proposed the legislation as part of wider package of measures aimed at ironing out tax distortions in the single market, was delighted with the vote. Although it is not required to take on parliamentary amendments, it may follow the recommendation to reduce the rate to 15 per cent – more commonly used in international agreements.

The UK has threatened to use its veto to block the directive that would, as presently drafted, place a minimum 20 per cent withholding tax on income from the savings and investments of non-residents. The City of London says the proposed tax could lead to 10,000 job losses if it covers international bonds. For the legislation to pass in any form, it will require the agreement of all 15 member states.

The Commission has refused to consider any exclusion for international bonds. It says British claims concerning job losses are greatly exaggerated as the tax would affect less than 10 per cent of international bond trading. The Commission says the tax would only apply to individual retail investors in the international bond market, not to pension funds and other institutional investors. It would thus only affect individuals who hold bond accounts in neighbouring countries to avoid domestic income tax.

FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. The shareholder of the Financial Times (Europe) GmbH is Pearson Overseas Holdings Limited, 3 Burlington Gardens, London, W1X 1LE. Shareholder of this company is Pearson plc, registered at the same address.

GERMANY:
Responsible for Advertising content: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boetie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.

SWEDEN:
Responsible Publisher: Bradley P Johnson. Telephone +46 8 791 2345. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

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Spain attacks UK over Gibraltar

By David White in Madrid

The temperature of the Gibraltar dispute rose sharply yesterday as Abel Matutes, Spanish foreign minister, accused the UK of failing to keep its word and threatened to step up pressure on the British colony.

He said Madrid was studying a "panoply" of further measures to back up its sovereignty claim, after the recent tightening of controls at Spain's border with the Gibraltar promontory.

These might include refusing to admit drivers with Gibraltar-issued licences and, if necessary, prohibiting Gibraltar-bound civil aircraft from overflying Spain, he said.

The threats were angrily received in Gibraltar, where they were as seen as reminiscent of the blockade by Spain's Franco dictatorship in the 1960s.

The Gibraltar government said Mr Matutes appeared to have launched "a campaign of attrition".

It appealed to both the UK and the European Union to challenge what it called Spain's "un-European, undemocratic attempts to force Gibraltar to accept Spanish sovereignty".

Mr Matutes, describing Gibraltar as "a parasite economy", also announced an inter-ministerial meeting today to discuss plans for the surrounding zone, voicing concern about the 3,000 Spaniards employed in the colony.

Appearing at his own request before a parliamentary committee, he fired a broadside at the British Foreign Office, saying Spain had been the victim of "a breach of promise by a partner and ally".

He was referring to an oral agreement reached last October with Robin Cook, British foreign secretary, to prevent clashes over Spanish fishing in waters off Gibraltar, over which Madrid says the UK has no legal rights.

Mr Matutes said it was the second time Britain had proved incapable of enforcing an agreement, after Gibraltar blocked an accord on joint use of its airport in 1987.

He told the committee that a report commissioned by the Gibraltar government from a leading law firm recommended negotiating a transfer of sovereignty to Spain. The Gibraltar government said it knew of no such document.

Rafael Estrella, a foreign affairs spokesman for Spain's Socialist opposition party, criticised Mr Matutes' handling of the dispute and called on José María Aznar and Tony Blair, the Spanish and British prime ministers, to deal with it directly. The two are due to hold their first bilateral summit this spring.

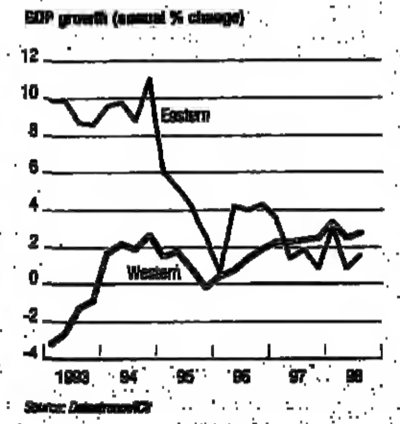
British officials said yesterday that London still hoped to build closer relations with Madrid, but that "threats and harassment" would not help.

E German economy feeling chill winds

But it could be showing the way on flexible working conditions, writes **Tony Barber**

Germany: still two tales of one city

Potsdamer Platz, Berlin, Europe's biggest construction site



Source: Datastream/ICV

Derelict housing, east Berlin

Shoppers in east Berlin coming in from the snow sometimes ask in a bar for a *Schuss*, or shot, of rum or whisky to make sure they are well warmed up.

In much the same way, the hard-pressed economy of eastern Germany still seems in need of a sharp kick to get it going.

The east's five *Länder*, or states, have received hundreds of billions of D-marks in aid since 1990, have installed some of the world's most modern telecommunications systems, have built new autobahns and have developed labour markets whose flexibility is the envy of western employers.

Yet unemployment data released this week showed that, on a seasonally adjusted basis, more than 1.29m people are without jobs, or almost one in five of the region's workforce. About 300,000 more are on government-funded job schemes.

Eastern living standards are still only about 57 per cent of those in western Germany, and about 1.5m people, or almost 10 per cent of the east's population before Germany's unification in 1990, have left the region in search of a better life.

Researchers at the Berlin-based DIW economics institute describe the weakness of the east, where only 0.8 per cent growth is forecast this year, less than half that in western Germany, as "deeply alarming".

The problems are evident in three of the east's biggest areas: Berlin, Leipzig and Dresden. Nine years after the fall of the Berlin wall, cranes, earth-movers, scaffolding and the skeletons of emerging high-rise blocks dominate the eastern landscape of Germany's new capital as far as its horizon. Here, at least, it would seem that the east's construction industry is in high demand.

Yet in the grimy east Berlin district of Prenzlauer Berg, dimly lit by street lamps dating from communist times, stand crumbling buildings whose exteriors still bear the pockmarks of bullets fired during the final battles of 1945.

The construction industry has been a mainstay of eastern Germany's economy in the 1990s, accounting for about one in six of the region's jobs as vast government-funded infrastructure projects got under way. But the industry underwent a painful contraction last year, having already built more office and administrative space between 1990 and 1997 than the east was ready for.

In the eastern states, most good news has its bad side. Near Leipzig, halfway down the A9 autobahn between Berlin and the Bavarian city of Nuremberg, stands a new shopping mall at Saalepark, which employs 4,500 people.

It is one of eastern Germany's biggest and proudest developments. Indeed, its size is unusual even by the standards of western Germany, where some shopping centres look like corner stores compared with the monster malls of the US. However, the very success of Saalepark has brought hard times for the retail trade in Leipzig, the neighbouring city of Halle and smaller Saxon towns such as Bitterfeld and Merseburg, where unemployment stands at 25 and 22 per cent respectively.

Some towns in Saxony, particularly those with traditions in the chemicals industry, such as Leuna and Schkopau, have tried to smooth the laborious process of economic transformation by attracting investment.

Two of France's industrial groups, Elf Aquitaine and Rhône-Poulenc, are among 15 chemical and oil companies, more than half of them non-German, which have established themselves in Leuna since 1990. They have injected a total of DM7bn (€3.6bn, $4bn) of investment, creating 10,000 jobs.

In similar fashion, the German group Siemens invested DM2.7bn five years ago in building a new semiconductor plant in Dresden, capital of Saxony. The project, completed in 1995, was followed by investments from the Californian company Advanced Micro Devices and other high-technology businesses.

All this gave rise to the quip that Dresden, known as "Florence on the Elbe" before its wartime bombing by British aircraft, would one day be famous across the world as "Silicon Valley on the Elbe".

But such hopes may not survive either the prolonged weakness of world semiconductor prices or Siemens' recent decision to float its semiconductor operations on the stock market. The 2,700 Siemens workers in Dresden were worried last summer when the company announced the closure of its recently built Tyneside semiconductor plant in northern England.

Though Siemens says it is committed to Dresden for the long run, the plant still does not make a profit – something that may concern future shareholders.

It is possible, however, to paint too black a picture of the east. Though labour costs remain high, hundreds of companies have proved more flexible than their western counterparts by striking deals with their staffs over pay and working conditions that are tailor-made for their specific circumstances.

Both managers and workers believe these deals are more likely to improve productivity and secure jobs than the rigid agreements, imposed across entire industrial sectors, which are traditional between employers and trade unions in the west. For workers, whose wages are on average about 90 per cent of western levels, the deals generally involve longer hours and smaller holiday pay and Christmas bonuses.

But ironically, this is one area where the east, desperate to bring down unemployment, may well be showing western Germany where the future lies.

IG Metall eyes strike ballot as pay talks fail

By Tony Barber in Frankfurt

Germany last night faced its most serious strike threat since unification in 1990 after the collapse of wage negotiations between metal industry employers and the nation's largest trade union.

Leaders of IG Metall, representing 3.4m workers, will meet on Sunday to decide whether to ballot members on holding an all-out strike. If a vote is called and 75 per cent of members give their approval, a strike could start on March 1.

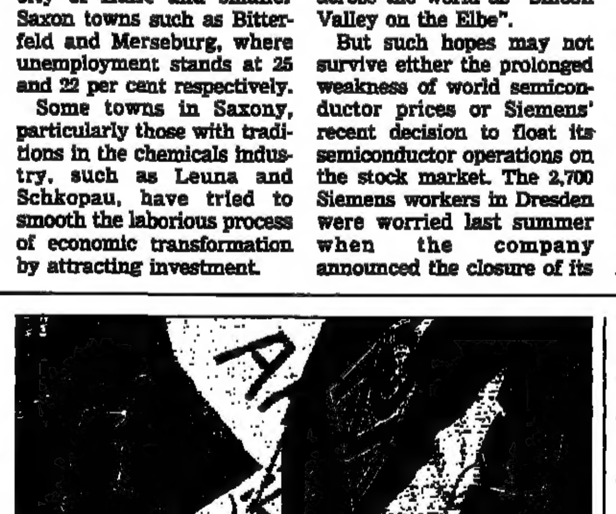
The union had set a deadline of midnight last night for an agreement, but with negotiations stalled as the deadline approached the prospect of strikes loomed large.

Tens of thousands of workers in car factories, engineering plants and shipyards have already staged brief walkouts on every weekday since January 29 in support of their demand for a 6.5 per cent annual wage increase. The employers' association, Gesamtmetall, has offered 2.3 per cent, plus 0.5 per cent extra from companies that can afford it.

An official strike would be a blow to Chancellor Gerhard Schröder's centre-left government, which is trying to coax employers and unions into a common effort to create jobs for Germany's 4m unemployed workers.

A prolonged strike would also damage the economy at a time when recession in Japan and financial turmoil elsewhere in the world are already hurting German exports and threatening the government's target of 2 per cent growth this year. The metal industry's last national strike took place in 1984 and lasted six weeks.

Klaus Zwickel, IG Metall's leader, accused employers of seeking to provoke the union into calling a strike to torpedo the government's employment initiative, known as the Alliance for Jobs.



Striking workers carrying IG Metall flags yesterday — Reuters

But Werner Stumpfe, head of Gesamtmetall, said employers could not offer more money without jeopardising jobs. "If we want to do the right thing in terms of jobs, then we cannot go beyond this framework."

Employers and union leaders are scheduled to meet government ministers on February 25 for what would be the second plenary session of the Alliance for Jobs initiative since Mr Schröder's election victory in September.

However, Hans-Peter Stihl, president of the German Chambers of Industry and Commerce, said: "More Alliance for Jobs talks cannot take place in the midst of a continuing wage dispute."

Lafontaine fails to head off tax criticism

By Ralph Atkins in Bonn

Oskar Lafontaine, Germany's finance minister, failed yesterday to head off fierce criticism from industry of his latest tax reform plans, despite announcing a series of changes intended to help smaller, family-owned businesses.

Revisions to the tax plans agreed by the Bonn cabinet will help individual sectors, such as book sellers hit by depreciation rules. But Mr Lafontaine said the government was sticking by its plans for a net "giveaway" of about DM15bn (€7.6bn, $8.6bn) a year from 2002.

Mr Lafontaine described his plans, which include cutting the basic rate of income tax from 23.9 to 19.9 per cent by 2002, as "financially solid and economically reasonable". An initial cut in basic rate income tax from 25.9 per cent was implemented on January 1.

However, the German industry association (BDI) said even the revised bill would not improve competitiveness. "On the contrary, it will cost German business DM35bn next year." The German employers' association (BDA) called on the government to withdraw its bill, saying industry would be hit by a widening of the tax base through the closing of loopholes, but would not gain from lower rates.

Yesterday's changes also affected rules on carrying back tax losses by companies and on capital gains. In addition, the cabinet agreed to toughen controls on tax on interest and to simplify rules on minimum tax payments by rich individuals exploiting write-off rules.

In total, Mr Lafontaine said the changes would cost DM6.6bn, but the funds would be recouped through a "catalogue" of counter-measures. He faced criticism from the opposition Christian Democratic Union for failing to set out in detail how the money would be recouped.

Mr Lafontaine also faced criticism from the CDU and industry for pushing ahead with the bill despite the government losing its majority in the Bundesrat, or second chamber of parliament, representing the federal states. The Social Democrat-Green coalition lost control of the Hesse state government in elections on Sunday. But the latest tax plans go to the Bundesrat on March 19 – before the new CDU-led administration in Hesse takes office.

Separately, the government is revising its "ecological tax" plans, which will fund cuts in state social security via higher energy taxes. Instead of granting exemptions for energy intensive companies, all of industry will pay a discount rate. The move followed pressure from Brussels.

But these changes also provoked fierce criticism. The BDA said the new ecological tax law was "highly bureaucratic" and would create an additional burden for many companies.

NEWS DIGEST

RAMBOUILLET PEACE TALKS

Milosevic signals hardline stance over Kosovo

In his first public comment since peace talks began last weekend in France, Slobodan Milosevic, Yugoslav president, yesterday delivered a hardline statement in Belgrade, saying any political solution to Kosovo must respect "the territorial integrity and state sovereignty of Serbia and Yugoslavia".

At the outset of the peace talks in Rambouillet last weekend, international mediators presented a draft plan effectively letting the Kosovo Albanians choose between links with the republic of Serbia or the wider Yugoslav federation. To drive home Mr Milosevic's point, Milan Milutinovic, Serbian president, is to join the Yugoslav delegation today.

Meanwhile, Nato said yesterday it hoped to have detailed plans for a 30,000-strong peacekeeping force ready by the end of next week, despite warnings from Belgrade that it would never accept foreign troops in Kosovo. These warnings triggered a strong reaction from Washington, which said attempts to frustrate international peace efforts could trigger Nato action.

Guy Dinmore, Belgrade and David Buchan, London

EUROPEAN PARLIAMENT

Copyright plans win backing

Private copying of electronically transmitted music and films would be outlawed under an amendment to the European Union's copyright directive backed by the European Parliament yesterday. The amendment – unpopular with consumer groups, disability campaigners and hardware manufacturers – would effectively give rights' holders control over private copying in the digital era.

MEPs also backed an amendment affecting so-called transitional copies of digitally transmitted material – incidental copies that are made in passing as data flow across the internet. The original copyright proposal exempted such copies from copyright law.

Telecoms operators say this would place an intolerable burden upon them as it would require them to vet everything that passes over the internet. The European Commission has already said it would not accept this amendment, a move likely to set the two institutions on a collision course. The proposed directive aims to harmonise EU copyright law for digitally transmitted material.

Emma Tucker, Brussels

ESTONIA DISASTER

Retrieval of bodies unlikely

The Swedish government is today expected to decide against retrieving bodies from the wreckage of the Estonia, the Baltic Sea ferry, which sank in 1994 with the loss of 852 lives.

In spite of a long-running campaign by the families of Swedish victims, the government is likely to argue that a project to retrieve the bodies from the ferry – which capsized en route between Tallinn and Stockholm – cannot proceed without the consent of the Finnish and Estonian authorities.

The governments in Finland and Estonia have called for the wreck to be preserved as a sea grave. The decision will dismay representatives of the 461 Swedish victims of the disaster, particularly since it would ignore the findings of a government-appointed committee, which recently recommended that Sweden should discuss the possible retrieval of bodies with other countries whose citizens perished in the vessel.

An official accident inquiry, completed in December 1997, blamed design and manufacturing faults on the Estonia's bow doors for the sinking. Since then the wreck has been partly covered in concrete.

Tim Burt, Stockholm

GERMAN ECONOMY

Large trade surplus recorded

Germany notched up its second highest visible trade surplus last year but failed to match exporters' expectations, according to official figures released yesterday.

The DM128.6bn (€65.7bn, $74.3bn) surplus was the highest since 1989, the federal statistics office in Wiesbaden said. Exports were up 6.9 per cent at DM949.7bn while imports rose 6.3 per cent to DM821.1bn.

But Michael Fuchs, president of the association of wholesalers and foreign traders, said the global economic crisis had an "appreciable" effect.

"This will cause significant difficulties in the year ahead," he said. Export growth has already slowed: exports in December were 2.8 per cent lower than a year before.

Last year's current account deficit, also taking account of trade in services and financial transfers, was DM15.8bn. That compared with a deficit of DM7.1bn in 1997.

Ralph Atkins, Bonn

EUROPE

DEMOCRATS FOR OLIVE TREE FORMER PM'S MOVEMENT IS HAVING UNEXPECTED SUCCESS

Prodi's political resurrection catches Italians off guard

By James Blitz in Rome

Never say die in Italian politics. Four months ago Romano Prodi was pronounced politically dead, a technocrat-turned-premier whose government had collapsed in a messy crisis that left him with an uncertain future.

Today he is the most talked about figure on Italy's turbulent political scene and could wield great influence over future developments.

At the end of last week Mr Prodi created a new political movement, called Democrats for the Olive Tree, that will compete directly with the parties of Italy's centre-left in June's European elections.

He is therefore accused by former allies of fragmenting the centre-left coalition, undermining the government of Massimo D'Alema, prime minister, and perhaps opening the way for the return of Silvio Berlusconi's rightwing Forza Italia at a general election this year or next.

Sitting in his Rome office yesterday, 59-year-old Mr Prodi shrugged off the critics.

"I have no choice but to do what I am doing. If I do nothing, D'Alema and the centre-left are going to lose the next election anyway. My movement is the only way of making sure that the centre-left unites again and that the right are kept out of government."

The speed of the "Prodi bandwagon" is taking people by surprise. Until recently the ex-premier was believed to be a strong candidate to take over from Jacques Santer as president of the European Commission. He refuses to comment on speculation that Germany and Spain may be hatching alternative plans for the job, saying it is too early to talk about any one person's chances.

But he admits: "I always took the view that I never had more than a 20 per cent chance of getting it anyway."

Meanwhile, his new movement is having far more success than he had expected. Opinion polls suggest it could get 10.5 per cent of the vote at the European elections, more than half the score of Mr D'Alema's Democrats of the Left.

There are five months to the polls and momentum could flag. But he says a range of factors – the support he is getting from 100 mayors across the country and signs that Mr D'Alema's own party is fragmenting at the grassroots – give a fair wind.

'My movement is the only way of ensuring the centre-left unites again'

But what does the party stand for? Mr Prodi says he wants to recreate the Olive Tree centre-left coalition that won the 1996 election, but with a disciplined structure that can no longer be undermined by the antics of the small parties within it.

"It's a historic challenge that would create a bipolar parliamentary system in Italy once and for all, and it means running up against 150 years of Italian history," he says.

Mr Prodi believes the Italian public supports his message that there must be an end to *trasformismo* – Italy's bad habit of changing governments every time a small party quits a coalition.

"There is now a moral imperative that we move away from this."

The former premier acknowledges that, for now, his initiative is opening a period of fratricide on the left. He supports Mr D'Alema's government and underlines that there is strong policy continuity, for the time being, with his own administration.

But he fears Mr D'Alema's administration is prone to "messy compromises" between the large number of parties that support it, giving the ruling majority no overall direction. "We are back to the days when each minister stands up in cabinet and talks from his party brief."

Whatever other criticisms Mr Prodi has of Mr D'Alema he keeps to himself.

The fate of the left depends on their ability to control the antipathy they have for one another. If they fail, Mr Prodi is in no doubt that the return to power of Forza Italia and the right is inevitable – and that Mr Berlusconi may yet be tempted to offer himself as a candidate for premier.

Romano Prodi: always took the view that he never had more than a 20 per cent chance of getting top Commission job

Anomalies of French work hours revealed

By Robert Graham in Paris

A report commissioned by France's Socialist-led government has exposed the enormous disparities in the working hours of the country's 4.3m public servants.

On average, the report shows, French civil servants work 35-37 hours a week, compared with the standard 39-hour week in the private sector. However, hours worked within the civil service vary widely – from 29 hours a week to 40 hours. The amount of leave and holidays taken also differs sharply.

The report has been prepared against the background of government plans to extend to public servants the introduction of a 35-hour week. However, the anomalies it has exposed are likely to complicate any discussion on cutting the working week, and could set the government on a collision course with civil servants anxious to protect their well-entrenched privileges.

The report, handed yesterday to Emile Zuccarelli, minister for public administration, called for a review of working hours in the civil service and a new emphasis on serving the public.

One of the principal abuses commented on in the report was the practice of allowing special days off in addition to existing holidays, plus huge variations in the number of holidays enjoyed within each ministry.

At the culture ministry the holidays vary from 30 days to 70 days a year. The same ministry has the widest fluctuation in hours worked.

When the government of Lionel Jospin announced in October 1997 its plans to introduce a 35-hour working week, the public sector was excluded. Without any formal statement, the government let it be known the civil service was already considered over-staffed and underworked.

It was also difficult to transfer from the private to the public sector a scheme which offered state aid for cutting working hours and hiring new personnel.

However, the government increasingly has felt obliged to impose the scheme in some form on the public sector. Initially it authorised negotiations with groups within the transport and electricity sectors, but it is now moving to apply the reduced working week to the civil service.

The government is aware it has to begin to make

At the culture ministry the holidays vary from 30 days to 70 days a year, with wide fluctuations in hours worked

structural changes in the high cost of public sector wages. There are some 2.2m civil servants employed directly by the central government, a further 1.4m by local authorities and another 700,000 in the public health system. The system of job guarantees means the age profile of the civil service is increasing.

In addition, introduction of the 35-hour week comes against a backdrop of costly pensions for those of the "baby-boom" years retiring from 2005.

The government sought to win the loyalty of public servants last year with a generous pay award. But already teachers are flexing their muscles over what they perceive as plans to cut their numbers.

Finance Ministry officials are also threatening strike action to protect their privileged status.

UKRAINE POWER DECOMMISSIONING OF CHERNOBYL PLANT IN 2000 IS LINKED TO CONSTRUCTION OF NEW PLANTS

EIB questions Kiev's nuclear reactor project

By Charles Clover in Kiev

The European Investment Bank has questioned the economic viability and necessity of two nuclear reactors which the European Union plans to help Ukraine build as a condition for closing the Chernobyl plant.

But despite the findings, set out in a January 26 memorandum to the European Commission, the EIB recommends that Brussels continues with the project.

The Commission, the EU's executive arm, had asked the EIB for its recommendation on the proposed €440m ($500m) in EU financing to help build Khmelnistky-2 and Rovno-4 (K2R4) reactors in western Ukraine.

The EIB's memorandum concluded that "a substantial degree of uncertainty attaches itself to a number of key parameters of the project". It listed likely cost over-runs and the prospect that the new power stations – to be built at an estimated cost of €1.7bn – would not be able to pay back the EU loan as reasons why "the [EIB] has been unable to establish a stand-alone economic justification for the K2R4 project".

According to the EIB's memorandum the economics of the new reactors are undermined by the fact that Ukraine's power industry collects only 5-10 per cent of its revenues in cash, making up the remainder in barter. It also found that Ukraine currently had no need for new electricity generators.

"The Ukrainian electricity system will probably have substantial excess capacity in relation to peak demand with an acceptable reserve margin until at least 2006, even taking into account the targeted decommissioning of Chernobyl in 2000," it said.

Kiev has long made closure of the Chernobyl nuclear power station, site of the world's worst nuclear accident in 1986, conditional on the construction of the new reactors.

The study noted that while there were electricity outages in Ukraine, these were due to non-payment by consumers rather than lack of capacity.

Greenpeace, the environmental group which has been lobbying against the new reactors, said: "The EIB report shows what previous independent analysis has indicated, that the closure of Chernobyl is not dependent on the completion of K2R4."

Despite the problems outlined, the EIB memorandum concluded that the project met the main commercial criteria for financing by the European Commission.

● Leonid Kuchma, the Ukrainian president, has invited Pope John Paul II to visit the former Soviet republic, representing a breakthrough in relations between Ukraine and the Vatican. The Pope is expected to accept the invitation.

Ukraine's 50m population is largely Orthodox Christian, although 3m-6m are members of the Greek Catholic or Uniate church.

THE AMERICAS

The powerful regiment lined up behind the general

Augusto Pinochet, former Chilean dictator, has an array of rich friends determined to support him as long as he needs them. **Jimmy Burns** and **Mark Mulligan** report

Within the next month, General Augusto Pinochet will know whether he faces a long period of involuntary exile or whether he will be able to catch the next aircraft back to Chile.

But whatever the outcome of the UK House of Lords deliberations regarding his extradition to Spain, he knows that he will not be short of an impressive array of rich and powerful friends determined to support him financially and politically as long as he needs them.

The network has been able to count on an impressive logistical back-up to help boost the fighting fund, including special travel arrangements, a nationwide telephone link-up, and a propaganda campaign devised for the internet by one of Britain's most successful public relations executives.

In the UK the support ranges from former prime minister Lady Thatcher to Patrick Robertson, former director of communications for the late businessman Sir Jimmy Goldsmith.

They include prominent figures in the City of London, such as Charles Alexander a senior investment banker, with more than 20 years of doing business in Chile, who signed a long article in support of the former dictator in the Daily Telegraph last month.

Since he was detained in October by British police, there has been no shortage of Chilean politicians and ordinary sympathetic citizens lining up in front of the TV cameras to voice their outrage at General Pinochet's treatment.

In fact the general's existence under arrest remains relatively privileged for a man facing charges of genocide and torture. He is living in a house in Surrey, together with his wife, chauffeur, aide-de-camp, butler, and cook, his personal staff, exercise equipment, video, and library of books funded by the Chilean army.

The £10,000 ($16,380) per month house rent plus insurance is covered by a senior company executive who has kept his identity secret.

The executive is one of a group of businessmen who have also agreed to cover the two other main items of expenditure-estimated legal costs so far of £2m and £280,000 so far spent on a public relations campaign being run by Bell Pottinger, the company whose chairman, Sir Tim Bell, advised the British Conservative party.

The core support is coming from an informal network of Chilean businessmen whose interests were well served by the policies adopted following the Pinochet-led 1973 military coup, and who continue to straddle the Chilean economy.

These businessmen are strongly opposed to General Pinochet being brought to trial for human rights violations.

Carlos Janeeus, director at the Centre for Contemporary Studies in Santiago, said yesterday that Gen Pinochet's rapid programme of privatisations and his regime's neo-liberal policies had won him favour across most of Chile's industrial sectors.

"It's no big surprise that these people are helping out, and there are a lot more who one doesn't hear about," he said.

Part of the network was active on Pinochet's behalf in the run-up to the 1988 plebiscite in which a majority of Chileans (55 per cent) voted for elections and against a sole presidential candidate nominated by the regime. It also backed the subsequent bid for the presidency of the Pinochet candidate, former finance minister Hernán Büchi, whose campaign in the elections of December 1989 was also handled by Tim Bell.

The elections were won by the main opposition candidate, Christian Democrat Patricio Alwyn with 55.2 per cent of the vote. Mr Büchi obtained 29.4 per cent.

In Chile, the latest campaign has been co-ordinated through the offices of the Pinochet Foundation, a private trust set up to help retired military men and their families.

The general's army: an impressive array of friends

Hernán Briones

Hernán Guiloff

Carlos Cáceres

Augusto Pinochet

Margaret Thatcher

Tim Bell

Ricardo Claro

One of the biggest single contributors to the campaign is the foundation's president, Hernán Briones, whose holding company Briones controls interests in real estate and building materials. Bio Bio, the group's main interest, is one of the country's biggest cement groups and is listed on the Santiago stock exchange.

It was Mr Briones who five years ago organised Lady Thatcher's first and only visit to Chile as part of a worldwide lecture tour.

Mr Briones, together with the former finance minister Carlos Cáceres, and real estate developer Hernán Guiloff, are the three signatories of a special account opened with Banco de Chile soon after Gen Pinochet's arrest in October.

Mr Cáceres, is a board member of the influential business-focused private University Adolfo Ibáñez, and a former board member of Enersis, Chile's largest electricity distributor, which is now the subject of a $1.45bn hostile bid by Endesa of Spain.

He is also known to have contributed a large amount of money to the Pinochet campaign.

Another business leader said to have given generously to the fund is Eugenio Heiremans, president of the Chilean Insurance Association, and owner of EST, an insurance group.

Mr Cáceres and Mr Heiremans managed Gen Pinochet's campaign for an extended term during the plebiscite of 1988, which resulted in the transition to the democratically elected Patricio Alwyn government.

Also helping cover Pinochet's costs is Ricardo Claro, one of Chile's wealthiest individuals, whose interests include a 50 per cent holding in El Diario – the financial daily in which the Spanish media group Recoletos, has a 14.9 per cent stake – a 50 per cent holding in Megavision, the commercial television network, and the Viña Santa Rita vineyards, one of the country's main wine exporters. Pearson, owner of the Financial Times, is the majority owner of Recoletos.

Televisa, the Mexican television group which holds the other 50 per cent of Megavision, was the first electronic media group to secure an interview with Lucia Hiriart, the wife of Gen Pinochet. One of the most successful elements of the fundraising effort has been a house-to-house telephone campaign run by Alfonso Márquez de la Plata, another former Pinochet minister and a director of the Pinochet Foundation.

With the co-operation of CTC, the country's largest telecommunications group – partly owned by Telefónica of Spain, Mr Márquez de la Plata set up a recorded message on computerised loop that reached hundreds of thousands of homes throughout Chile, requesting donations.

CTC agreed to help collect the donations with its regular telephone bills, sent monthly to clients.

"An important part of the business sector here is firmly on the right," said Mr Janeeus. "A lot of Pinochet's ministers and top public servants ended up with the privatised companies.

"All the big companies in telecommunications, in the electricity sector, in mining, and chemicals were privatised during the Pinochet regime."

According to Monica Behrhahm, a Foundation official, supporters both in Chile and Britain are looking after the costs of the publicity campaign with Tim Bell's agency.

Sir Tim said yesterday that his campaign was being financed by Chilean businessmen and politicians linked to the Pinochet Foundation and the rightwing party Renovacion Nacional through a lobby group called the Chilean Reconciliation Group.

Ms Behrhahm denied reports that the Foundation had subsidised the some 600 Pinochet supporters who have travelled to London since the general's arrest.

"Every one of them has paid their own costs – some have gone deep into debt for this," she said.

Nevertheless group tours arranged through local travel agencies have offered special packages including return flights to London on British Airways, with seven days' bed and breakfast for $1,145 a head. Travellers unable to pay in cash or with credit cards have been given 12 months or two years, depending on the agency, to pay off their trips.

Additional reporting by John Mason

NEWS DIGEST

IMPEACHMENT

Clinton plans to make new address over affair

President Bill Clinton is expected to make a new address to the nation about the Monica Lewinsky scandal as soon as the Senate has taken its final votes on the impeachment charges against him, White House officials indicated yesterday.

Mr Clinton is expected to stress his regret at having put the country through such a long ordeal and to appeal to Republicans to put the matter behind them and work with the White House on a substantive policy agenda. The decision comes as the US Senate moves towards a final vote on the charges that Mr Clinton committed perjury and obstructed justice in covering up his affair with Ms Lewinsky.

Trent Lott, Senate majority leader, said he hoped to hold both votes today "if at all possible". **Mark Suzman, Washington**

MINAS GERAIS

Government steps in over bond

The Brazilian government yesterday repaid part of an international bond issued by the state of Minas Gerais in the latest twist in its dispute with states over debt obligations.

Pedro Parente, deputy finance minister, said the government had repaid around half of the $108m international bond issue which matured yesterday, in an attempt to ease investor concerns about the risk of default by state governments. The decision to bail-out Minas Gerais came after Itamar Franco, the governor since January, said the state could not meet the payment in full.

Meanwhile, the central bank announced that Luiz Fernando Figueiredo, treasury director at Banco BBA-Creditanstalt, had been appointed as the new director of monetary policy, while Daniel Gleizer, economist at CSFB-Garantia, the investment bank, would become director for international affairs. **Geoff Dyer, São Paulo**

US BANKING LAWS

Congress pressed on reform

Top executives of US financial institutions urged Congress yesterday to act swiftly to modernise America's banking laws, saying the country was being left behind while other nations knocked down barriers between banking, insurance and securities companies.

At issue is the much attempted but never accomplished reform of the 66-year-old Glass-Steagall Act. It was enacted after the stock market collapse of the late 1920s in a climate of distrust of the financial sector. The act bars banks from underwriting or dealing in securities and from affiliating with companies that are "engaged principally" in those activities. **Deborah McGregor, Washington**

On the web today

● Canada plans public sector pension reform ● US steelworkers step up action on dumping ● New internet trading system breaches the final frontier

http://www.ft.com/americas

ZIMBABWE ECONOMY ATTACK ON JUDGES JEOPARDISES INTERNATIONAL SUPPORT FOR LAND RESETTLEMENT PROGRAMME

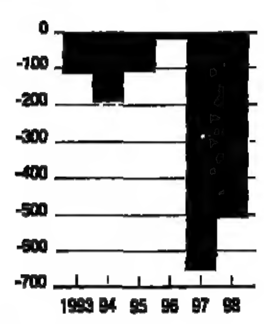
Outburst by Mugabe may deter donors

By Tony Hawkins in Harare

Angry Zimbabwean students took to the streets yesterday to protest against President Robert Mugabe's attack on the judiciary at the weekend, as international donors were making their own assessment of his outburst.

Whatever the effect on the president's domestic popularity, one damaging consequence is the likelihood that it will have jeopardised outside support for Zimbabwe's land resettlement programme, only temporarily set back by yesterday's court ruling that the government had failed to meet the deadline for designating 520 of the 841 white-owned farms it intends to take over.

Zimbabwe
Current account balance (US$m)



Source: Datastream/ICV

In his TV address to the nation, the Zimbabwe president, who turns 75 this month, let fly at the independent media, three of the five supreme court judges, human rights activists and "British agents".

The timing, as well as the content, may prove doubly unfortunate. It came when Zimbabwean ministers and officials were trying to negotiate resumed International Monetary Fund and World Bank support to prop up the currency and balance of payments and when the government is appealing for donors to fund land redistribution.

Most serious of all, from a legal and constitutional point of view, were the president's criticisms of those judges who had spoken out against the arrest and alleged torture of two journalists by military police, urging the presidency to reaffirm the rule of law by making a public statement on the matter. This, said Mr Mugabe was "an outrageous and deliberate act of impudence", adding that the judiciary must choose between politics and the bench.

An independent judiciary would be crucial in seeing that land acquisition is carried out transparently and fairly, say western donors.

Ministers and officials appeared to have disregarded any connection donors might make between between governance and whether the IMF should disburse a promised $53m tranche of a $176m standby facility. Instead the government has concentrated on meeting IMF demands by trimming the public sector and the budget deficit, accelerating privatisation, raising interest rates and preparing a public statement on land acquisition that demonstrates Harare's commitment to full and fair compensation.

With the exchange rate under pressure, foreign reserves depleted, private capital inflows having dried up and the economy stuck in a rut of 1 to 2 per cent growth, economists agree that Zimbabwe desperately needs official assistance. Without it, land resettlement is doomed, and the government would be forced to re-impose controls in an effort to stabilise the exchange rate.

Some businessmen argue that the combination of resumed IMF lending next month, followed by World Bank and donor disbursements, and the opening of the tobacco sales in April, will give the government the breathing space it needs to push ahead with the structural reforms, such as privatisation, necessary to revive the country's fortunes.

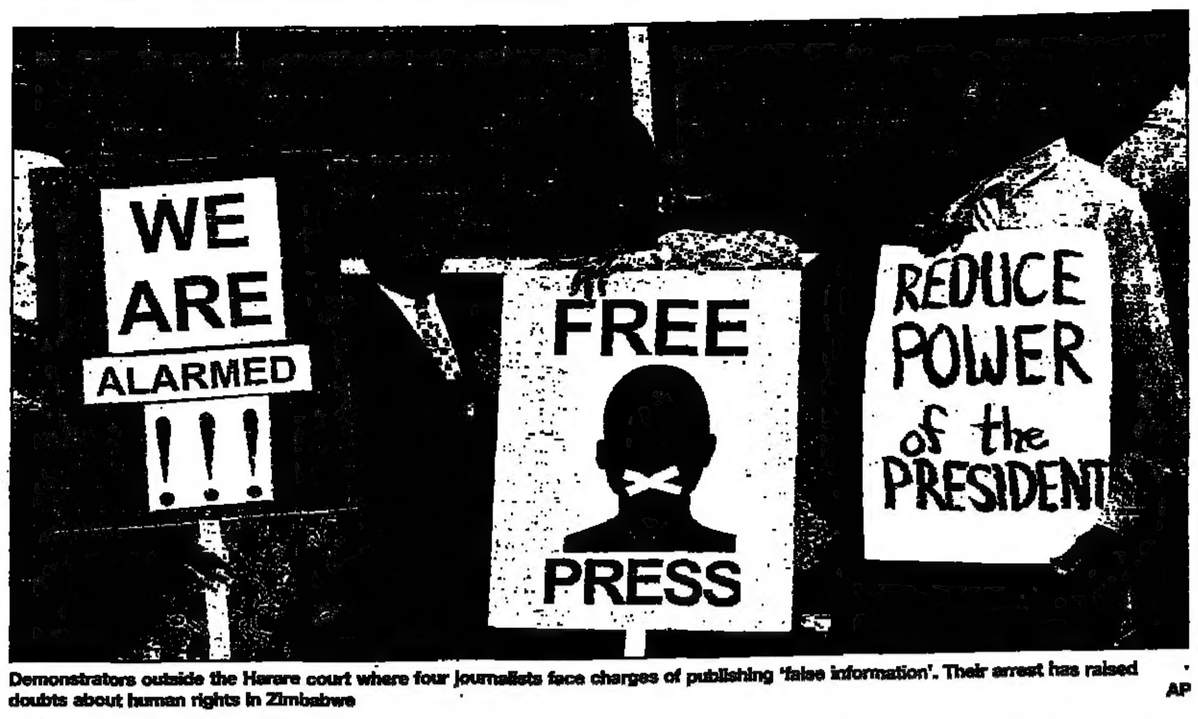
Others take a less optimistic view. Hopes that agriculture would kickstart the economy this year have all but disappeared as a result of the excessive rains of the last three months. Tobacco production will be down by at least a quarter, while quality has also suffered. Cotton output is being forecast at 200,000 tonnes, well below the 320,000 tonne target.

The maize crop is unlikely to be much larger than last year, despite a 40 per cent increase in commercial plantings, and some in the industry believe Zimbabwe will need to import 500,000 tonnes over the next year. Mining is in the doldrums because of depressed world prices, while manufacturing is unlikely to grow more than 2 per cent in 1999.

The brightest spot perhaps is tourism, though growth is likely to slow this year as a result of the global slowdown and near-recession in the industry's largest market, South Africa.

Over the three years – 1998-2000 – economic growth is unlikely to keep pace with population growth, meaning that when Mr Mugabe's ruling ZANU-PF faces the electorate in April 2000, it will be saddled with the baggage of rising unemployment, rapid inflation, high interest rates and falling living standards.

As with the efforts to borrow abroad, the present strategy of tackling symptoms rather than the disease – imposing informal price controls, managing the exchange rate, tightening some currency controls, and threatening critics in the media and human rights organisations – will do no more than buy time.



Demonstrators outside the Harare court where four journalists face charges of publishing 'false information'. Their arrest has raised doubts about human rights in Zimbabwe AP

Frail Assad grooms son for succession

As Syria's president prepares to celebrate the start of his fifth term of office, the touchy question of his eventual successor is being raised, writes Roula Khalaf

Syrians yesterday flocked to the polls to vote in a referendum to give President Hafez al Assad a fifth seven-year term in office.

While there is no question that Mr Assad, whose name is the only one on the ballot, will be overwhelmingly confirmed – victory celebrations are already being prepared – the referendum comes at a time when the touchy question of his succession is increasingly being raised.

Mr Assad, 69, has been in frail health for years. But he has ruled Syria for the past 29 years and so strongly dominated all aspects of Syrian life that many are afraid even to contemplate a future without him.

There is a growing perception that Mr Assad is cautiously grooming his son Bashar for the succession. Bashar, 34, was trained as an ophthalmologist in London and went back to Damascus after his elder brother Bassil – the expected heir – was killed in a car accident in 1994.

Since then, Bashar has been made a colonel in the Syrian army, and has taken up the cause of introducing information technology to Syria. He is also known to want to fight the widespread corruption that plagues the system.

Bashar was last year given responsibility for Lebanon – where politics are dominated by Damascus – interpreted as a sure sign that he is being prepared to succeed his father. Lebanese officials are predicting that Bashar will soon be named to a senior post as part of changes that will take place after the referendum. There is also speculation that the ruling Baath party will at its next congress nominate him to the national command.

Long-time observers of Syria, however, say that Bashar is being prepared for a high post but not necessarily that of president. He will only reach 40 – the minimum age for the president – in six years. And the enthusiasm shown in Damascus for Bashar is a far cry from the popularity that his brother once enjoyed.

Bassil's charisma and the loyalty he commanded in the armed forces convinced many that he was suited to take over and solidify the minority Alawi hierarchy in a country where the majority is Sunni. So devastated was Syria by Bassil's death that many economists cite it as one reason for the economic recession that followed.

Perhaps most important, however, "is that conventions of Syrian politics require power to be earned rather than simply inherited," as notes a recent Adelphi paper published by London's International Institute for Strategic Studies. Indeed, people close to the Syrian government are betting that the most likely succession – should it happen in the next few years – would turn over power to a "collective leadership" of Alawi military and security chiefs with perhaps a Sunni head – most likely Abdelhalim Khaddam, the vice president.

Diplomats in the Syrian capital say Bashar's chances of taking over from his father will ultimately depend on how quickly he moves up the ladder of the political system and the ruling Baath party and how successful he is at building his own constituency. "Bashar is being promoted. But the chances of succeeding his father increase the longer Hafez al Assad stays in power," says a senior western diplomat.

Israeli judge threatened

By Judy Dempsey in Jerusalem

Guards protecting Israel's supreme court judge were yesterday put on high alert after ultra-Orthodox Jewish leaders called him a "judicial dictatorship", an anti-Semite, and threatened his life.

Leaders of the ultra-Orthodox, or Haredim parties serving in Benjamin Netanyahu's rightwing coalition government, are planning a rally in Jerusalem on Sunday to challenge recent decisions by the supreme court.

Mr Netanyahu, last night met their leaders in a bid to calm tensions – but without alienating the religious vote he needs to win the May elections. The criticism levelled at the judge, Mr Aharon Barak – a staunch defender of a civil society as opposed to the Haredim who advocate a theocratic state based on the religious law of the Torah, the Jewish bible – stems from the court's recent rulings.

It ruled that military exemption of religious students was illegal, shopping on the Sabbath in the kibbutzim, secular collective settlements, was allowed, and the Orthodox monopoly on conversions to Judaism was no longer legally tenable.

Ivory trade ban is eased

African ivory can be sold legally in international trade under an experimental programme approved yesterday, AP reports from Geneva.

Discussions are continuing to establish what stockpiles of ivory exist before a decision can be taken on how much is to be exported.

The project, opposed by some animal rights groups, will see a strictly limited amount of ivory exported from Botswana, Namibia and Zimbabwe to Japan.

The ban on all trade in ivory was introduced nine years ago to protect elephants, whose numbers had been run down by poaching, but elephants have flourished in some countries and game protection officials have argued that they now have more elephants than their land can sustain.

The move has been taken "to support conservation and community development projects", according to the standing committee of the Convention on International Trade in Endangered Species of Wild Fauna and Flora.

The meeting heard that three of the four countries involved had implemented required safeguards designed to ensure that the move did not lead to a return of poaching.

BANKS AGREE FINANCE FOR BALKAN ROAD LINKS

Consortium to fund Croatian motorways

By Kevin Done,
East Europe Correspondent

A consortium of international and domestic banks has agreed to provide bridging finance for Croatia's ambitious motorway construction programme to close the gaps in the highway network between the Adriatic port of Rijeka and central and east Europe.

The loans, totalling DM134.5m (€68.8m, $77.7m) open the way for work to begin on new sections of the DM1.2bn project to complete the 148km motorway between Rijeka, the main deepwater port, and the capital, Zagreb.

The new highway will also play an important role in accelerating the recovery of tourism along Croatia's Adriatic coast, which suffered badly during the years of war in former Yugoslavia.

The loans have been made to Autocesta Rijeka-Zagreb (ARZ), the state-owned concession company responsible for constructing the toll motorway, which will form part of Corridor V of the Transeuropean Network aimed eventually at linking the Adriatic ports of Rijeka, Koper in Slovenia and Trieste in Italy through central Europe to Kiev in Ukraine. ARZ is to be privatised later by competitive tender.

A consortium led by Deutsche Bank is providing a DM84.5m syndicated loan to act as bridging finance until the first stage of project finance totalling between DM400m and DM600m is completed during the first quarter of next year. An additional four-year medium-term loan for DM50m has been agreed with Kreditanstalt für Wiederaufbau, the German development bank.

The Deutsche Bank consortium includes Dresdner Bank, Frankfurter Sparkasse and Norddeutsche Landesbank of Germany, Erste Bank and Raiffeisen Zentralbank of Austria, Credit Suisse First Boston, CSOB from the Czech Republic and the Croatian banks Privredna Banka and Rijecka Banka.

The syndicated loan has been provided at 80 basis points (0.8 per cent) over Libor (London interbank offered rate) and for up to 12 months. The terms of the loan demonstrate the increasing readiness of commercial banks to return to lending in central Europe in the wake of the crisis in emerging market financing in the second half of 1998.

The availability of bridging finance for toll motorway construction also suggests that confidence is strengthening in funding motorway concession projects despite the problems of earlier schemes in the region, particularly in Hungary.

Croatia hopes to complete key sections of the Rijeka to Zagreb motorway by the end of 2000. Ilbau, the Austrian construction group has been contracted to build a 12km stretch between Karlovac, south-west of Zagreb, to Novi Grad involving extensive tunnelling and bridges in difficult terrain.

CAIB, the investment banking arm of Bank Austria which is advising the Croatian government, said that further bridging finance of FFr330m (€50.3m, $57m) would be agreed next March to allow work to begin on a further section to be built by Spie Batignolles, the French construction group.

Separately, bridging finance is also being negotiated to fund work by Trans European Autocesta (TEA), the concession company led by Astaldi of Italy which is working on the DM950m project to complete the 97km motorway from Zagreb to Gorican on the Hungarian border. A first bridging loan of DM225m led by Mediocredito Centrale was agreed last August and a further DM100m-DM150m is due to be finalised in May.

Project financing for the TEA concession is expected to be completed in the second half of 1999, and both projects expect to attract funding from the World Bank and the European Bank for Reconstruction and Development.

EU seeks to avert clash with US over hormones

By Neil Buckley in Brussels

The European Union will consider three options to comply with a World Trade Organisation ruling against its ban on hormone-treated beef from the US, in an effort to avoid a repeat of the bruising transatlantic trade clash over bananas.

The European Commission, the EU executive, yesterday adopted a paper setting out the three approaches which will now be debated by the legislative arms – the European parliament and EU ministers. Ministers must give a mandate to the Commission to negotiate with the US on their behalf.

The move – three months before a May 13 deadline for complying with the WTO ruling – reflects anxiety in Brussels that the beef hormones dispute must not be allowed to escalate into a trade war that could dwarf the squabble over the EU's banana import regime.

The WTO ruled a year ago that the European ban on hormone-treated beef imports violated multilateral trade rules, because it was not backed by adequate scientific evidence. The EU says some research suggests that the hormones can cause cancer in humans.

The 15-nation EU asked for two years to comply with the ruling – allowing time to complete full scientific research into the health risks – but was given only 15 months.

The Commission admitted this week that the research is unlikely to be ready by May – meaning the EU must adopt interim measures to appease Washington until the studies are finished.

The suggested options are:

- maintaining the ban but offering to negotiate on compensation with the US – most likely increased access to EU agricultural markets.
- lifting the ban, but introducing labelling allowing consumers to identify US hormone-treated beef.
- changing the ban's nature, transforming it from a permanent into a "provisional" measure adopted "on the basis of available pertinent information," pending completion of research. Brussels says this would be permitted under the WTO's sanitary and phyto-sanitary agreement.

The Commission admits the final option would "not change the substance of the present prohibition" and is unlikely to be acceptable to the US.

US officials recognise that lifting the ban could provoke political controversy in the EU and are prepared to consider other ways of resolving the dispute.

But Dan Glickman, US agriculture secretary, said he expected the EU to lift the ban regardless of whether scientific studies were complete.

POWER DEVELOPMENT RIVAL SCHEMES PUT FORWARD TO END CHRONIC ELECTRICITY SHORTAGES

Uganda 'close to big hydroelectric deal'

By Mark Turner in Nairobi

AES, the US independent power company, says it is about to sign a deal to construct a $500m-$600m 250MW hydroelectric dam at Uganda's Bujagali Falls, a project that would double the country's power supply.

The investment – East Africa's biggest – would show confidence in Uganda, at a time of donor concern at corruption and the potential cost of the military involvement in the Democratic Republic of Congo.

Bob Chestnutt, the Bujagali project manager, says the deal would involve a 30-year power purchase agreement with the Uganda Electricity Board.

Uganda suffers from severe power shortages, which a recent World Bank study cited as a major impediment to investment. The government estimates that shortages reduce GDP growth by 2 per cent a year.

The country's current energy source, the hydroelectric dam at Owen Falls, generates only 180MW, 100MW below demand. A planned extension to the Falls should raise installed capacity to 380MW over the next few years.

AES is confident there will be demand for Bujagali's extra capacity, citing forecasts that Uganda will need more than 1,100MW by 2020. "By the time our project fully comes on line, in around 2004, Uganda will require 620MW," said Mr Chestnutt, who also sees export potential to Kenya and Tanzania.

But the picture is clouded by another project, a Norwegian-proposed facility at Karuma Falls, which Uganda-based Norpak Power says would be cheaper, more flexible and, because it would use underground sluices rather than a dam, have less impact on the environment. AES has been criticised in the local press over environmental concerns, but it maintains its facility would have little impact.

The Karuma Falls project, says Norpak, would have a maximum capacity of 200MW, with 100MW coming on line within 30 months, and would sell electricity for around 5 to 5.5 US cents a unit. AES says its unit cost would be under 6 cents, but that includes the cost of transmission and taxes.

Uganda may not need both projects.

Jim Adams, the World Bank country director for Uganda, said the Bank had been invited to provide a report on the Bujugali project and would also consider the Karuma project – although the proposal was less advanced.

The analysis will include an environmental assessment, and an analysis of price and future demand. Initial estimates suggest that Uganda could not accommodate both projects, and Mr Adams said the World Bank would not consider any situations which would later require government subsidies.

Potential financiers are watching developments closely. The World Bank lending arm, the International Finance Corporation, which is likely to be a key lender in the Bujagali project, says it is also crucial that Uganda shows more evidence of electricity sector reform.

Mr Tumusiime-Mutebile, Uganda's influential permanent secretary for finance, said that President Yoweri Museveni's recent decision to place energy reform in the hands of the finance ministry "will precipitate those reforms". He doubted whether both projects could go ahead at the same time, and said that the least-cost solution should be pursued.

Despite these complications, AES claims that Bujagali is strongly supported by the government.

Kinnock defies US over curbs on noisy aircraft

By Neil Buckley

The European Union's transport commissioner yesterday rebuffed US attempts to delay EU legislation that would clamp down on the use of noisy aircraft in EU airspace.

Neil Kinnock insisted that planned rules to restrict older, noisier aircraft in the EU from April, even if fitted with engine mufflers or "hush-kits", were not discriminatory and did not contravene any of the EU's agreements with the US.

The European parliament yesterday gave a green light to the rules – clearing the way for their likely final adoption by EU ministers next month. Mr Kinnock said there was growing European pressure to reduce noise around congested airports.

Mr Kinnock's comments came after three senior members of the US administration wrote to Brussels warning that the legislation could result in the cancellation of hundreds of millions of dollars of aircraft and equipment orders.

Charlene Barshefsky, US trade representative, William Daley, commerce secretary, and Rodney Slater, secretary of transportation, warned that the rules could have a "profound impact" on EU-US relations.

The late US attempt to force the EU to delay introduction of the measures risks turning the issue into the latest in a series of transatlantic trade disagreements.

"Local authorities and national governments are already introducing noise stipulations which risk fragmenting the market," he warned. "It is better to have EU regulation that would ensure there was transparency."

Mr Kinnock added that it was in the interests of passenger safety to encourage investment in new aircraft rather than maintaining fleets of ageing, hush-kitted aircraft.

The EU rules would "freeze" hush-kitted aircraft registered in the EU as of April, and would ban from April 2002 similar aircraft registered in third countries that were not already operating before this April.

Officials said the US had been fully informed of the EU moves even before the legislation was proposed nearly a year ago, and had been given ample opportunity to make its concerns known.

They added that the rules were also environmentally motivated, with research showing that hush-kitted aircraft use more fuel and create more air pollution than modern aircraft.

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Frail Assad grooms son for successio

Roula Khalaf

to avert clas over hormone

defies US ov noisy aircraf

BoJ sell-off boosts bonds speculation

By Gillian Tett in Tokyo, Stephen Fidler in Washington and Alan Beattie in London

The Bank of Japan yesterday started to sell into the market some of the Y23,000bn ($202bn) financing bills (FB), or short-term securities, it holds on its balance sheet for the first time for two years.

The sales added to speculation in the market ahead of tomorrow's critical meeting of the bank's policy board. Some economists are now urging the Bank to boost the economy by buying more 10-year Japanese government bonds.

The yen fell sharply against the dollar during yesterday's Asian trading session, dropping from around Y114 to Y115.4, following a report in the Wall Street Journal that the US was now asking Japan to ease monetary policy. The yen regained most of the lost ground during London trading hours, although the market remained thin and jittery.

Thomas Foley, US ambassador to Japan, formally denied that the US had asked the Bank of Japan to buy bonds. He also denied suggestions that Japanese politicians had asked the US to raise its purchases of JGBs as well, an idea recently floated by some Japanese politicians.

Although US Treasury officials in Washington would not directly confirm reports of a shift in the US position, they are known to believe that fiscal policy has reached the limits of its effectiveness in Japan and that rising interest rates could neutralise the impact of stimulus packages. Since at least last month, they have begun to express the view to Japanese officials that monetary expansion is now necessary.

Yesterday, they pointed to statements by Robert Rubin, US Treasury secretary, saying that Japan should use "all the tools at its disposal" to deal with its recession.

Yesterday's FB sales, which totalled Y300bn, mark part of a broader reform of the short-term FB market that the Bank of Japan is now implementing as part of Big Bang deregulation. In particular, the bank is now trying to introduce more competition into the FB market, which it has traditionally dominated.

Although the bank has so far refused to buy 10-year JGBS, some officials have suggested that the bank might agree to raise its bond holdings if it sold some FBs at the same time – thus keeping the overall level of government securities on the bank's balance sheet constant.

The pressure on the bank to take action has risen sharply in recent days, partly because long-term interest rates have risen to over 2.4 per cent, up from 0.7 per cent last autumn. However, JGB yields have slipped back during the past week; at the close in Tokyo yesterday, they stood at 2 per cent.

Meanwhile Japan's largest banks look set to raise at least Y9,000bn worth of additional capital in the coming weeks, in a new attempt to tackle their bad loan problems, government officials indicated yesterday.

This will include some Y6,650bn worth of money provided from a fund of Y25,000bn that was earmarked for the banks to increase their capital bases. However, an additional Y2,000bn to Y3,000bn will also be raised by the banks' own share issues, banking officials have said.

This level of public injections is slightly higher than the banks initially indicated that they would apply for, since several banks, recently promised to raise the requested amount. Some officials are still urging the banks to raise the level of public funds they are requesting to tackle the bad loan problem.

Japanese hopes ride on bullet train

By Alexandra Harney in Tokyo

Japan unveiled its latest bullet train yesterday. It travels no faster than its predecessors and much more slowly than its contemporaries in France but the new Series 700 *shinkansen*, as the high-speed trains are known, lightens the gloomy economy.

The new train should also boost the struggling Japan Railway (JR) companies, fighting with the government over pension payments and waging a losing battle with the deregulated domestic airline industry.

The Series 700 model that buzzed into Tokyo yesterday cut a rather humble profile. The snub-nosed train, developed for Central Japan and West Japan Railways, represents JR's attempt to control production costs and improve aerodynamics. Its double-hulled aluminium body and flashy roof fins permit speeds of 285 kph – nearly 15 kph slower than its immediate predecessor, the troublesome Series 500.

But each of the new electric trains, designed by Hitachi, Nippon Sharyo, Kawasaki Heavy Industries, and Nippon Sharyo, cost Y4bn ($35m) to build, an estimated 20 per cent less than the Series 500.

Analysts said Central Japan was hoping to increase passenger volume on the Tokyo to Osaka route, the most heavily travelled in the world, and was adding extra services there after March, when the Series 700 hits the tracks. "They are looking at costs more than pure speed," said Douglas Hayashi, railways analyst at HSBC Securities in Tokyo.

JR plans to replace up to eight trains with Series 700 models every year, allowing it to run more trains and raise fares which, however, are already more expensive than comparable airline tickets on most *shinkansen* routes.

Miyazawa initiative

Malaysia	**Total $2bn**
Ex-Im Bank two-step loans	$500m
Government yen loans	$1bn
Trade insurance by MITI	$500m*
Thailand	**Total $2.35bn**
Ex-Im Bank co-financing with World Bank	$600m
Ex-Im Bank two-step loans	$750m
Government yen loans	$500m
MITI trade insurance	$500m*
Indonesia	**Total $2.4bn**
Ex-Im Bank co-financing	$1.5bn
Government yen loans	$900m
South Korea	**Total $7.35bn**
Ex-Im Bank loan to Industrial Bank of Korea**	$1.35bn
Short-term lines of credit	$5bn
Philippines	**Total $1.4bn**
Ex-Im Bank loans	$1.1bn
Government yen loans	$300m

* Trade insurance not part of Miyazawa plan
** Remainder of $3bn package not yet decided

Source: Japanese Ministry of Finance

Third of short-term aid wins approval

By Michiyo Nakamoto

More than half of the medium- to long-term aid offered to Asia under the Miyazawa plan has been committed, but it became apparent from figures provided by the finance ministry yesterday that only a third of short-term aid has won the approval of Japanese authorities.

The $30bn in Japanese aid being offered to five countries under the New Miyazawa Initiative is gradually finding its way to concrete programmes proposed by the countries involved. The Miyazawa plan is named after the Kiichi Miyazawa, finance minister.

However, while $9.5bn out of $15bn set aside for medium-to-long term programmes has been indicated, only South Korea has won the approval of the finance ministry for $5bn in short-term funds.

The finance ministry says that it has been difficult for most of the five countries to put together proposals that meet the conditions for short-term aid and are practical.

Some of the proposals put forward belong in the medium- to long-term category, while some countries just want money for no clearly defined programme, a finance ministry official said.

Short-term aid is provided for periods that can be as short as six months, mainly to ease trade financing.

SENSITIVE GOODS EXPORT OF HITACHI INSTRUMENTS HAVE ADDED TO CONCERN OVER BEIJING'S AMBITIONS

Alarm bells over China's N-plans

The China connection

By Michiyo Nakamoto in Tokyo

Whether out of greed, sheer carelessness, or even in perfect good faith, Japanese companies are likely to have a significant role in the build-up of China's military expertise.

This week, revelations that Hitachi Electronics and Ryokosha, a wholesaler, had exported precision instruments to China that could be used to develop nuclear weapons have raised questions over how far Japanese companies are willing to go to do business in the People's Republic.

The development comes against a background of growing concern over Chinese military ambitions, with the US in particular made nervous by a sharp increase in the number of Chinese missiles pointing at Taiwan.

Hitachi Electronics, a precision instruments manufacturer which is 61.8 per cent owned by Hitachi and listed on the first section of the Tokyo Stock Exchange, is suspected of joining hands with Ryokosha to export Y230m ($2m) worth of telecomparators to China without obtaining the required authorisation from Japan's Ministry of International Trade and Industry.

Although telecomparators are machine tools normally used to measure the precision of the electronic products, they can also be used to develop and manufacture equipment to extract plutonium for nuclear weapons.

Ryokosha, a small trading company which specialises in precision instruments, is believed to have breached Japanese regulations by sending staff to an electronics factory in Harbin, China, for instruction on how to use the telecomparators.

Ryokosha, a small wholesaler which does 95 per cent of its business in the domestic market, says it was unaware that it was supposed to receive authorisation from the Ministry of International Trade and Ministry for export of the products to China.

Hitachi Electronics did not need authorisation from Miti, since it is the manufacturer, rather than the exporter, or the products.

However, police have raided the offices of Hitachi Electronics and the homes of company executives on suspicion of violating the Foreign Exchange and Foreign Trade Law and the Customs Law. A former executive of Ryokosha has already been arrested. The police have sent documents on Hitachi Electronics and Ryokosha to the prosecutors.

"Under the Foreign Exchange Law, illegal exports that are due to negligence do not lead to an indictment," says Masaru Yamazumi, deputy director of the security export inspection office in Miti. But although Hitachi Electronics may not have been required to obtain authorisation, there is the concept of conspiracy, he says. "That is how we understand it."

Japan companies seem likely to have a big role in the build-up of China's military expertise

Twelve years ago Toshiba Machine caused a storm over illegal exports of sensitive equipment to the then Soviet Union. TV images of Americans smashing Toshiba consumer products sent shock waves throughout Japan. Export controls were tightened and Japan earned itself a solid reputation for controlling illegal exports.

So why did Hitachi Electronics risk its good reputation on a business that is worth only a fraction of its sales?

Overall profits at the company are falling sharply, in spite of costs cuts. Net profits in the year to March are forecast to plunge to Y160m from Y657m last year and Y870m the year before, on sales that are expected to drop to Y54bn from Y60.25bn previously.

The relatively lax penalties against offenders may also be a significant reason why companies such as Hitachi Electronics do not consider the consequences more seriously.

Under Japanese law, the maximum penalty for breaching the Foreign Exchange Law is a sentence of less than five years or a fine of less than Y2m ($17,500). "The idea is that the damage done to the company's image (if they are caught breaching the law) is a heavy price to pay, indicates Mr Yamazumi.

Clearly, it is not heavy enough. In the past decade or so since the Toshiba case, 10 Japanese companies have been found guilty of illegal exports, according to Miti. Several of those involved illegal exports to China. On top of that, there are cases where sensitive products were inadvertently transferred, Miti acknowledges.

"In practice, if someone is offered a lot of money, they may provide (information and products," says Kenji Kondo, director of the security export control division at Miti.

Then there is risk that restricted products and technologies are exported inadvertently, due to a lack of strict compliance rules. Ryokosha did not have anyone specifically in charge of compliance until recently and in 1996 was caught trying to export telecomparators to Taiwan, without the necessary papers.

Furthermore, "there are products that are not on the list (of products requiring authorisation) that could be used for military purposes," concedes Mr Yamazumi. Given the huge amount of high-tech trade between Japan and China, if Japan were to tighten controls on exports of all such products and technologies, both the financial cost and the cost to trade, would be too high, he says.

Xanana Gusmao, the East Timorese rebel leader, is moved out of jail yesterday Reuters

Top Timorese guerrilla moved from prison to house arrest

By Sander Thoenes in Jakarta

Indonesia's government moved the Timorese guerrilla leader Jose Alexandre Xanana Gusmao from prison to a nearby house yesterday, the first concrete step in a series of concessions made to further negotiations on autonomy or independence for East Timor.

Mr Gusmao and his guards left the Cipinang prison in the capital Jakarta in a simple grey passenger van, weaving into heavy traffic with a light escort. Only two dozen cheering Timorese and a horde of mostly foreign journalists followed him to a government cottage nearby, where he will be under house arrest behind a new metal fence and brick walls topped by barbed wire.

Journalists broke several windows and a table in their efforts to follow Muladi, the justice minister, as he welcomed Mr Gusmao, 52, to the small, freshly painted house. Mr Muladi said Mr Gusmao, serving a 20-year sentence following his capture in 1992, could receive guests during the day and receive phone calls but not make outgoing calls.

Mr Muladi said Mr Gusmao had been transferred to enable him "to take part in negotiations in his capacity as a faction leader," referring to a flurry of talks with Portugal, the United Nations and East Timorese groups, following Indonesia's offer to grant autonomy or independence. Mr Gusmao said he faced a "big task to help bring peace among the East Timorese people. This is why I came here."

Mr Gusmao, who had captained the prison's soccer team, befriended other political prisoners and had been all but free to receive guests, had earlier objected to a suggestion by United Nations officials that he be moved to house arrest. But he proved open to compromise and eager to end a flare-up between rival groups in East Timor.

In talks with Portugal and the United Nations earlier this week, Indonesia rejected calls for a referendum among the Timorese but said the UN could expand consultations on the island to find out whether autonomy would be acceptable. If its offer of autonomy is rejected, Indonesia says it plans to ask its parliament to revoke the annexation of East Timor, presumably later this year.

The small number of police and protesters underscored how little most Indonesians care about East Timor, even though more than 1,200 soldiers died there and up to 200,000 Timorese were killed in guerrilla warfare and famine. While former President Suharto steadfastly defended his decision to annex East Timor, in 1976, his successor B.J. Habibie last month revealed he thought it was not worth the international condemnation showered on Indonesia over the past 24 years.

LEGAL AUTONOMY ISSUE TOP OFFICIAL BEING SENT TO BEIJING AS US CONCERN GROWS

Drive to end new HK crisis

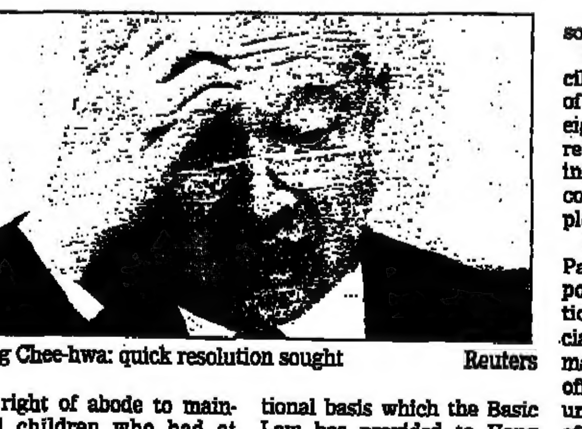
By Rahul Jacob in Hong Kong

Tung Chee-hwa, Hong Kong's chief executive, said yesterday he would send a senior official to Beijing to help resolve a constitutional crisis over the territory's legal autonomy.

Amid signs that attacks on Hong Kong's Court of Final Appeal from the mainland had badly damaged public confidence in Hong Kong, Mr Tung said he would despatch Elsie Leung, secretary of justice, to Beijing.

The independence of Hong Kong's judiciary and the rule of law are central to the "one country, two systems" principles by which Hong Kong has been governed since it reverted to Chinese rule in July 1997.

The US consulate yesterday added its voice to that of foreign investors who had expressed concern about the constitutional stand-off.



Tung Chee-hwa: quick resolution sought Reuters

The court had issued a landmark ruling granting the right of abode to mainland children who had at least one parent residing in Hong Kong, but in doing so it underlined that it had primary jurisdiction over matters relating to Hong Kong. On Monday, a senior mainland official harshly attacked the ruling, saying it should be changed.

Mr Tung yesterday played down the dispute, saying it would be quickly resolved. "I am confident that because we adhere to the constitutional basis which the Basic Law has provided to Hong Kong, we can solve any problems that we face," he said.

The crisis has already taken a toll on public confidence. A survey by Hong Kong's Policy Research Institute conducted on Monday found that confidence in the territory's relations with the mainland had plummeted.

Mr Tung was criticised yesterday for not having sent an emissary to Beijing sooner to discuss the crisis.

Beijing has been more conciliatory in the past couple of days. On Tuesday, a Foreign Ministry spokeswoman reiterated China's "unflinching support" for the one-country, two-systems principle.

Both the Democratic Party, Hong Kong's most popular political organisation, and the local Bar Association said the criticisms by mainland legal experts and officials amounted to a misunderstanding of the Court of Final Appeal ruling.

They argued that it had not put itself above the National People's Congress, China's parliament, but merely reaffirmed its right to interpret the Basic Law, Hong Kong's post-colonial constitution, in matters concerning local affairs, including immigration.

Mainland experts, however, have seen this as a challenge to China's sovereignty.

India in bus diplomacy with Pakistan

By Mark Nicholson in New Delhi

Atal Behari Vajpayee, India's prime minister, has promised personally to inaugurate the country's first direct bus link with Pakistan on February 20, saying he will carry with him the offer of a "no-war pact" with its newly nuclear rival.

Mr Vajpayee's "bus diplomacy" sustains an unexpected injection of recent political momentum to talks between south Asia's otherwise suspicious neighbours, with the Indian prime minister saying he was willing to raise the status of an otherwise bureaucratic and crawling series of contacts begun after the two countries' nuclear tests last May.

"Official talks have already been on with the two countries, and to elevate them to a political level is not a problem," he said during a tour of Caribbean states.

Mr Vajpayee said he was happy to discuss both nuclear security and the disputed territory of Jammu and Kashmir, cause of two wars between the neighbours, with Nawaz Sharif, his Pakistani counterpart, during what has become an impromptu summit.

The sudden gust of political warmth in the otherwise chilly relationship follows remarks last week by Mr Sharif to an Indian newspaper urging both sides to "sit with an open mind" and directly address bilateral issues. "Let us sit on one table and talk," he said. "Some movement or other is bound to take place."

An apparently off-the-cuff invitation in the same interview for Mr Vajpayee to travel on the first Delhi-Lahore bus trip was accepted immediately by Mr Vajpayee in principle, and confirmed yesterday.

Establishment of a direct bus link is one of only two recent areas of co-operation between India and Pakistan, though neither has strictly flowed from the highly structured official talks. The second is discussion over the sale of surplus Pakistani electricity to India, a deal which Indian officials say has been agreed in principle if not yet in detail.

Senior foreign ministry officials from both sides had otherwise made no tangible progress during talks in both Islamabad and Delhi on either the "core" issues of Kashmir and nuclear security, or on a series of longstanding border, trade and other bilateral irritants.

There may be more atmosphere than substance to the sudden flurry of warmer exchanges. A "no-war pact" as suggested by Mr Vajpayee would be symbolic. Both countries agreed as far back as 1972, in their joint "Simla Accord" that their differences would be solved "by peaceful means through bilateral negotiations".

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WORLD SERVICE CUTS AIM TO MEET TIGHT BUDGET AFTER RESEARCH FINDS THAT COUNTRY'S AUDIENCE LISTENS IN ENGLISH

BBC to axe German language service

By John Gapper, Media Editor

The BBC World Service is to close its German language service and reduce others to try to remain within its UK government funding settlement over the next three years.

The BBC said it had found that nine out of 10 opinion formers – its target audience – in Germany listened to the World Service in English. The corporation also intends to trim services in Thai, Arabic, Portuguese for Africa and Russian. The BBC said these language services would become "more focused" and it would retain 42 language services.

The German service was founded in 1938. The BBC has increasingly concentrated efforts on reaching emerging markets.

The World Service, which is financed through grant-in-aid from the Foreign Office, said it also intended to invest £14m ($23m) in improving its internet services, including the broadcast of all language services via its web site.

The service's budget of £160m in 1998 is to rise by £44m over the next three years, of which £30m will be invested in operations. The remainder will be used as capital investment in broadcasting infrastructure. The cuts are expected to involve the loss of up to 50 jobs though 26 will be created. It will also increase the range of FM broadcasts of remaining services.

Mark Byford, chief executive of the service, said it intended to provide "unrivalled news and information" on the internet for the 300m people estimated to be connected by 2002.

He added that the service intended to be broadcast on FM frequencies in as many capital cities as possible.

● The UK's first interactive property auction was held yesterday in the ballroom of a London hotel, Christopher Price writes. The auctioneer stood above a bank of laptop computers and in front of a projected screen showing the properties and the bidding on the internet. Facilities for bids by telephone were situated to the auctioneer's right watched by an audience of about 300.

Internet bidders each had to lodge a 10 per cent deposit of the reserve price of a property they were interested in with Allsops, the auction house, before being allowed to take part. All those using the internet came from outside London, including one potential buyer from South Africa.

Internet users saw a photograph of the property, some particulars and the reserve price. As bidding began, the web site showed the price changing, by how much and whether the offer had come from the floor, the telephone or the internet.

Opposition leader seeks advice from US

FT writers report on William Hague's trip to see George W Bush and study his brand of 'compassionate conservatism'

Opinion polls consistently give a low rating to William Hague, leader of the opposition Conservative party, but he escaped the gloomy political scene in London yesterday for a rejuvenating five-day visit to North America.

He hopes to witness the charisma and "compassionate conservatism" of George W Bush, governor of Texas, and try to acquire some of his political appeal.

Cynics in Tony Blair's Labour government think Mr Hague has more in common with Joe Clark, the leader of the Canadian Conservatives, whom he will meet in Toronto. Mr Clark's party, once the country's dominant force, is a tiny rump in the Ottawa parliament.

But Mr Hague's visit to Austin, Texas, Mr will attract most attention.

Mr Bush, still undeclared, is the leading contender for the Republicans' presidential nomination in next year's election. He knows how to connect with a crowd, immediately shouting a warm "good morning" before a prayer service on the morning of his inauguration, then quickly summoning his Spanish for a few added words of appeal.

The moderate Mr Bush preaches broad themes of inclusiveness and bi-partisan co-operation. He has been a strong supporter of education and the fight against drugs but remains non-committal on some thornier issues – including abortion – that religious conservatives would like to see addressed.

Mr Hague has already started down the road of making the British Conservatives more tolerant. His first speech as Conservative leader in October 1997 stressed the need for the party to embrace homosexuals, single parents and other bogey-figures of the Thatcher years.

But there are signs he is unsure about whether this modern Conservatism will work. He appeared last week to turn the clock back, with a speech about the importance of marriage and the need to reform the tax system in favour of married couples.

The parallels between the travails of the British Conservative party and the US Republicans are not that apparent. The Conservatives are still grappling with internal divisions, mostly over Britain's role in Europe. They are striving to make their presence felt at all in a House of Commons in which the Labour government has an overwhelming majority.

But there is one obvious challenge the two parties have in common. Both have seen their opponents – Tony Blair's Labour and Bill Clinton's Democrats – move to the centre ground over the past few years, stealing many traditionally conservative positions on economic and international policy.

Mr Hague hopes Mr Bush will have concrete policy advice for a British party still groping for a distinctive platform. "He wants to see how the Republicans in Texas turned around their image and reconnected with people," said one of Mr Hague's officials.

Likewise, Mr Bush, who has been busy briefing himself on world events in the past two months, will be eager to hear Mr Hague's views on Britain and Europe, as well as on domestic policies.

They may forge a warm personal relationship, if not like that enjoyed by Mr Clinton and Mr Blair then perhaps like that between Mr Hague's predecessor, John Major, and Mr Bush's father, the former president.

They may – faced with the challenge of powerful centre-left governments in each country – reinforce each other's resolve, adding a twist to the bilingual Mr Bush's words at last month's inauguration: "Juntos podemos" – "Together we can".

Rise and fall: from Heath to Hague

- 1974 Conservative party led by Edward Heath defeated in national elections; Labour party under Harold Wilson takes over
- 1978 Winter of discontent: Labour government wrestles ineffectually with season of strikes in public services
- 1979 Conservatives led by Margaret Thatcher sweep back to power in national elections
- 1983 Thatcher wins again, this time against Labour party led by Neil Kinnock
- 1984-86 Trade unions defeated in big disputes in coalmines and at Rupert Murdoch's new newspaper plant in Wapping district of London
- 1987 Thatcher's third election victory, again over Kinnock
- 1990 John Major succeeds Thatcher as Conservative leader
- 1992 Conservatives win national elections with reduced majority
- 1994 Tony Blair becomes Labour leader
- 1995 Major survives challenge to his leadership of the party despite bitter public disputes about approach to European Union
- 1995-96 Conservative party dogged by "sleaze" allegations which lead to resignation of numerous ministers
- 1997 Conservatives suffer crushing defeat in national elections and are left with no MPs in Scotland or in many of their traditional English heartlands; William Hague succeeds Major

Electricity pension members in court win

By John Mason and Jane Martinson

Electricity industry pension scheme members yesterday won a substantial legal victory when the Court of Appeal in London ruled that National Grid and National Power acted illegally in using £350m ($574m) of pension fund surpluses to pay for post-privatisation redundancies.

The judgment has wide implications for both the electricity and pensions industries. The court ruled in effect that surpluses totalling £1.5bn inherited after privatisation should be used primarily for the benefit of pension scheme members rather than the companies.

Lord Justice Brooke ruled that employers' obligations to pension funds should be honoured and not "whittled away by unilateral decisions on their part". Pensioners had a reasonable expectation that any dealings with pension fund surpluses would pay fair regard to their interests since the purpose of schemes was to provide for their retirement, he said.

The core issue of the ownership of pension fund surpluses could affect the general provision of final salary schemes, a High Court judge has warned previously.

But the pension scheme members face further legal hurdles before any money is repaid.

The case could be referred to the House of Lords for a final decision, which could clarify the issue. The house, the unelected upper house of parliament, acts as the highest court of appeal.

NEWS DIGEST

NORTHERN IRELAND

Business leaders urge progress in peace talks

Northern Ireland's business and trade union leaders yesterday broke their silence on the continuing political stalemate, urging parties to "pull back from the collision course" over the role of Sinn Féin, the political wing of the Irish Republican Army, in the new regional government. In its first statement since the peace deal was struck last April, the so-called Group of 7 business leaders deplored the "savage acts of lawlessness which are now an everyday occurrence". The group, which includes the Confederation of British Industry and the Institute of Directors, the employers' lobbies, as well as the Irish Congress of Trade Unions, proposed what it called a "workable solution" to the impasse over the decommissioning of paramilitary arms. It said the agreed power-sharing executive, in which Sinn Féin is entitled to two seats, should be set up as the agreement requires simultaneously with paramilitary groups making a start to hand over weapons. Sir George Quigley, Ulster Bank and G7 chairman, said the group had "no political axe to grind", but argued the best way forward was the establishment of an executive and the simultaneous start of disarmament by republican and loyalist gunmen. "That is what political reality requires and the creation of a normal, decent society demands. For everybody to wait for somebody else to move before moving themselves is a sure recipe for permanent immobility." **John Murray Brown, Dublin**

BRITISH AIRWAYS

Travel agent commission cut

British Airways, which this week announced its first-ever third-quarter loss, has reduced payments to travel agents as part of its £1bn ($1.64bn) cost-cutting drive. Travel agents yesterday criticised the change and said it would not help BA achieve its aim of increasing business class sales. The loss of business class passengers was one of the reasons behind BA's £75m pre-tax loss. The airline is telling travel agents it is abandoning the controversial commission structure it set up last year. That cut agents' commissions to 7 per cent from the previous levels of 9 per cent for international flights and 7.5 per cent for domestic services. Travel agents were told last year they could increase their commission above 7 per cent if they reached certain targets for ticket sales. The European Commission issued a statement objecting to this system and was due to announce a final decision next month. BA said yesterday that from the end of March it would instead pay agents a flat rate of 7 per cent.

BA said it was not changing its system primarily to cut costs or to head off action by Brussels. But travel agents said they had little doubt the move was aimed at reducing costs. BA has so far achieved £600m of its planned £1bn of cost savings.

"It's now the turn of the distribution system to feel the brunt of that attack," said Don Lunn, chairman of the Guild of Business Travel Agents. **Michael Skapinker, London**

SOCIAL SECURITY BENEFITS

Claimants to face interview

Everyone of working age – including lone parents and the disabled – will be required to participate in a work-focused interview before becoming entitled to benefit, under the welfare reform bill published yesterday. The bill marks a further marked shift in the government's approach. "There is no unconditional right to benefit," said Alistair Darling, chief minister for social security, adding that people had a responsibility to take up help to get into work. Mr Darling announced what he described as "a radical change in the [welfare] culture" and said the single work-focused gateway into benefits will provide a new regime "far tougher than people thought", requiring individuals to discuss with a personal adviser how they can become independent of the benefit system, with advice on skills, education and training. **Nicholas Timmins, London**

RAIL OPERATORS

Punctuality record worsens

The punctuality of the privatised rail companies fell last year, John O'Brien, the franchising director, said yesterday. Punctuality declined on 45 of the 77 routes on the national network and improved on 29. Three were unchanged. But reliability improved with 37 routes reducing cancellations, 31 increasing them and nine unchanged. "Punctuality remains poor and was down compared to the previous year," said Mr O'Brien. "These results are not good enough." But even these results would not have been achieved if the train companies had not made extensive use of their right to exclude days on which performance is exceptionally poor. Previously, only a handful of days were excluded each year but in 1998 the companies declared 390 days "void", with Richard Branson's Virgin Trains accounting for 138 days. Yesterday's performance review was the most comprehensive to be published since privatisation. **Charles Batchelor, London**

PETROCHEMICALS

BP sheds 400 jobs in Scotland

BP is to shed 400 jobs at its complex at Grangemouth in central Scotland. It said it needed to improve efficiency and reduce costs in the face of a flat global economy, low oil prices and simultaneous downturns in the exploration, refining and petrochemical businesses, all of which are represented at Grangemouth. **James Buxton, Edinburgh**

THE ECONOMY POLICY COMMITTEE DISAGREES OVER INFLATION FORECAST

Central bank report warns over slow growth

By Robert Chote, Economics Editor

The British economy is unlikely to grow much during the first half of this year in spite of recent cuts in interest rates, the Bank of England, the UK central bank, said yesterday.

Its quarterly report also predicts the government's preferred measure of underlying inflation will remain near its 2.5 per cent target over the next two years.

But some unnamed members of the Bank's monetary policy committee, which sets interest rates, believe this forecast is around 0.2 percentage points too high.

The dissenters expect stronger productivity growth or lower world prices than their colleagues. As a result they may press for further rate cuts in coming months, even if the economic outlook does not deteriorate. Rates have already been cut from 7.5 to 5.5 per cent since October.

The Bank has revised down its forecast of economic activity since November to show growth "close to zero" over the next two quarters. This reflects a lower forecast of domestic spending – especially by consumers – and a weaker outlook for the world economy and UK exports.

A worsening trade position; a possible fall in business investment and the shedding of excess stocks are all expected to depress economic activity this year.

Four-quarter growth is expected to trough between 0.5 and 1 per cent in the middle of the year.

The Bank believes growth is more likely to undershoot the forecast rather than overshoot.

Sterling, having been unaffected by the sharp rate cuts in recent months, dropped in response to the inflation report.

See Comment in Companies & Finance: UK

صحف من الارشيف

MANAGEMENT & TECHNOLOGY

PROFILE GEORGE TRUMBULL, AMP

Aggressive wizard of Oz

Gwen Robinson meets the American who shook up the sleepy Australian insurance group

'It was pretty clear the AMP board was not going to hire someone like me if there weren't big problems'

People who deal directly with George Trumbull can usually recount colourful anecdotes about the US insurance executive once described as "corporate Australia's most controversial import".

The title barely does justice to the upheavals generated by Mr Trumbull since he became chief executive of AMP, Australia's largest insurance and funds management group.

One striking story goes back to 1994, shortly after Mr Trumbull left Cigna Insurance, one of the largest US insurers, to join AMP. In his first weeks at its Sydney headquarters, he organised lunch with 10 male executives to ask what they thought were the organisation's biggest problems.

After listening, he expressed surprise: "Funny you should say that . . . because I had a group of women executives in recently, who said one of the biggest problems was sexual harassment and discrimination. And you know something? Five of the biggest offenders they named are sitting right here, at this table."

He never identified the five, but insiders doubt they survived the radical management overhaul that followed. Four years later, nearly half the group's top 80 executives have been replaced by outsiders and AMP is on the most aggressive expansion wave of its 150-year history.

Mr Trumbull once described his task at AMP as "trying to make a large, old organisation behave as if it were small and young".

In 1981 he worked on the merger of Connecticut General with INA Corp, companies with more than 20,000 employees each.

The result was Cigna: big and aggressive. With that in mind, perhaps, he criticised AMP for arrogance and complacency: "Too much bureaucracy and too little action." It was not a popular line with management. "But it was pretty clear the AMP board was not going to hire someone like me if there weren't big problems."

Since 1994, Mr Trumbull has led AMP's near-miraculous transformation from a stodgy mutual known as the Australian Mutual Provident Society into the country's fourth-largest company – a stockmarket darling with market capitalisation of A$22bn ($14.2bn), 18,000 staff and about A$200bn in funds under management. The group's full-year profits, due this month, are expected to reach nearly A$1bn, exceeding forecasts of A$774-$977m.

In the UK, AMP is poised to become the fifth-largest insurer, in terms of assets, following completion of its latest acquisition, National Provident Institution. The NPI bid followed the purchase in early 1998 of Henderson, the UK funds manager; the demutualisation of AMP; its mid-year listing in Australia's biggest float; and the launch of the largest hostile bid in Australian history, AMP's A$3.3bn bid for GIO Australia Holdings, a general insurer.

"Not a bad effort, huh?" Mr Trumbull asks in a rare moment of understatement. Two-thirds into his six-year term, he has only really begun. The bitter, five-month battle for GIO gave AMP control in January. It fell far short of its target, delivering just 57 per cent of GIO for A$1.8bn. But it was enough to trigger an overhaul of AMP's general insurance business.

AMP's fast-growing UK operations, meanwhile, are undergoing what Mr Trumbull calls "fine-tuning" in order to extract greater cost benefits. He wants a London listing for AMP within five years, and plans to apply for a UK banking licence this year. Expanding further in Europe is another priority. He is also eyeing the Asian markets.

In Australia, the fledgling AMP Bank operation will begin in April as a highly competitive business operating through supermarkets, the internet and other banks' electronic teller networks.

Mr Trumbull complains that many Australians neither register nor appreciate his achievements. "I mean, AMP is among a handful of AAA-rated life insurers in the world." He puzzles, in almost wounded tones, over the ire he has provoked in the media and in AMP.

"Some people, even in AMP, might say I'm larger than life, because when you change an organisation – there's lots of ways, but one way is to be out front, to lead that change. I care about the people I work for and who work in the organisation – that doesn't come across as much as it might."

Egotistical, maybe: "You don't survive in a job like this unless you have a strong ego . . . and unless you're pretty self-sufficient."

But arrogance? "In Australia, when I say we're going to create a world-class company, that we're going to be employer of choice, that's taken as arrogance . . . Well, I always thought arrogance was when you didn't deliver. If you deliver, you've won whatever rights you had – and anyone would say we've delivered at AMP."

That delivery owes as much to Mr Trumbull's grasp of his business as his go-getting style. Now 54, he was 20 years at Cigna.

From his first day at AMP, however, Mr Trumbull's US nationality, his high salary (among Australia's highest) and aggressive style were issues. He will not forget the first, isolated year. His wife stayed in the US to allow their two children to finish school. "You come into a new culture . . . the senior management wasn't all that receptive. I didn't know one person in Australia."

Now the new and old businesses are laid out around Mr Trumbull, like pieces of an elaborate toy train set. With an enthusiastic grin, he discusses how best to fit them together.

He draws diagrams on paper, and as he talks his vision of a worldwide financial services empire emerges.

He talks of the "legacy" he will leave AMP, probably when his contract expires in 2000: the "fundamental cultural change".

As he leans back in his office, with its panoramic views of Sydney Harbour, Mr Trumbull is not asking you whether he has done a good job. He is telling you. That early lunchtime confrontation has become something of a legend.

He half-smiles when asked about the encounter: "Yeh, that one's true." But there are many which are untrue, he says. "If you talk to people within AMP, you get a different view of me than you do in the press. I say to everyone who works for me, 'only believe half of what you hear or read about me, wait six months to decide which half, and I'll do the same for you'."

GROWING BUSINESS

Community effect counts a great deal

American universities are more efficient than their UK counterparts at commercialising research, but academic excellence alone does not guarantee success. Technology transfer flourishes only when a web of links develops between venture capitalists, lawyers, accountants, business angels and former spin-out companies.

That is one of the findings of a report* published today, after a visit by a group of UK university vice-chancellors and heads of technology transfer offices to Boston and California. It forms part of the work of a UK trade and industry department steering group, headed by Ronald Cohen, chairman of Apax Partners, that is examining non-financial obstacles to the growth of technology companies. "The community effect is striking," says Paul Haycock, director of Apax. "You can have a great university, but if it's in the middle of the salt lakes, effective technology transfer doesn't happen."

The UK government's drive to make Britain's universities more commercial receives fresh impetus today as Lord Sainsbury, the science minister, launches the £25m ($41m) Science Enterprise Challenge, under which universities can compete for funds to endow up to eight new science enterprise centres.

The report applauds the UK government's commitment to technology transfer, but the UK still has plenty to learn from across the Atlantic, it suggests.

Technology transfer offices there tend to be more efficient, unencumbered by slow-moving committees. They are staffed by well-paid, high-calibre individuals who enjoy autonomy.

The priority is to get intellectual property into the marketplace at speed. Inventors can count on plenty of support, such as with patent searches, and they will have a considerable say as to whether their invention is licensed to an existing company or whether a spin-out is formed.

**Technology Transfer – the US experience. Available from CVCP, tel UK (0)171-419 4111.*

Katharine Campbell

TECHNOLOGY WORTH WATCHING

Bull and bear markets driven by herd instincts

Unless you are a diehard capitalist economist, you probably believe that financial markets are irrational, *writes Victoria Griffith*. Research by European scientists, published today in the scientific journal Nature, confirms it.

A study by Thomas Lux of the University of Bonn and Michele Marchesi of the University of Cagliari dismantles the "efficient market hypothesis" of economics, which claims securities prices reflect an unbiased view of news. Instead, prices are largely the result of herd behaviour, they say.

Using a computer simulation model familiar to physicists studying large, interacting multi-agent systems, the researchers conclude that the real force behind market movements are "noise traders" who base their buying and selling decisions on what other participants are doing. Changes in sentiment by just a few players can shift the entire market mood and cause a stampede.

Slight optimism can quickly turn into a full bull market, while a touch of pessimism may bring out the bears. Rational information about the securities' asset value takes time to be absorbed, and only in the very long term does such news have an impact on the price.

Lux and Marchesi divided traders in their simulation into two groups: "fundamentalists" and "noise traders". Fundamentalists expected the price to reflect the underlying value of the asset; their decisions took into account information on corporate earnings, interest rates, and other news. This is the business model usually taught at universities. Noise traders simply looked at what everyone else was doing. Depending on the signals they were receiving, participants morphed into noise traders or fundamentalists, optimists or pessimists.

Bear and bull markets are mostly caused by mood changes among noise traders. In periods of high volatility, there were more noise traders. The fundamentalists did have a stabilising influence on securities prices over the long run. They saw big deviations from underlying asset value as buying or selling opportunities. Yet their calming influence was also undermined over time. Enchanted by the superior short-term profits of the noise traders, the fundamentalists tended to desert their ranks and convert to noise trading.

Thomas Lux, University of Bonn: tel Germany 228739519, fax 228737953, e-mail lux@iiw.uni-bonn.de

IN BRIEF

Transplant drugs may promote tumour growth

After an organ transplant, drugs are used to suppress the immune system and prevent rejection. For a long time the increased cancer rates associated with transplants were believed to result from this practice, *writes Andrew Baxter*.

Now Minoru Hojo (of Cornell University, New York, and Teikyo University School of Medicine, Japan) and colleagues say that cyclosporine, one of the most effective and commonly used immunosuppressants, might promote tumour growth. In today's Nature, the scientific journal, they suggest it increases the body's production of transforming growth factor beta (TGF-beta); a protein that seems to alter the behaviour of cancerous cells.

Their studies show that cyclosporine makes cells more likely to divide, change shape, spread and invade other cells.

Minoru Hojo: tel Japan 448443243, e-mail mhojo@med.teikyo-u.ac.jp

Body clocks stir the 'larks'

Researchers at Leiden University in the Netherlands have discovered that morning types ("larks") differ from evening types ("night owls") because their biological clock runs two hours earlier, *writes Andrew Baxter*. Until now, it was assumed that personality differences such as laziness or extravert behaviour explained the difference.

Regular measurements of the daily temperature curve in both types showed that, biologically, some people wake up earlier than others.

In a 24-hour economy, the researchers suggest, these morning and evening types could work at times that suited them. But together they make up only a small part of the population.

Hans van Dongen: Vdongen@Mail.Med. UPenn.ed; Netherlands Organisation for Scientific Research, www.nwo.nl

Stable blue beam at last

One of the goals of laser technology – a stable beam, blue laser that operates at room temperature – is expected to be available for commercial use within six months, *writes Tom Mead*.

Nichia Chemical Industries, a small Japanese company, demonstrated a blue laser in 1993, stealing a march on larger rivals. The short, 400 nanometer wavelength of blue or violet lasers provides a broad range of applications, including high-definition videodiscs, higher resolution laser printers, computer displays and scanners, and more precise laser surgery.

http://www1a.meshnet.or.jp/nichia/vlaser-e.htm

Long-life telegraph poles

There are about 1bn wooden telegraph poles worldwide, and most have to be replaced eventually because of fungal rot and insect attack. It is a big issue for power and telecommunications companies, *writes Edwin Colyer*.

Scotland-based Preserve has developed a device, based on a UK invention, that injects preservative into the heartwood of poles, extending their life for at least 15 years. The Fluid Injector is about the size of a grapefruit and is installed by drilling a small hole in the side of the pole. The injector is then attached, activated and left to do its work.

It contains a reservoir of wood preservative that is pressurised by a carbon dioxide cartridge on activation. The device supplies a continual, controlled release of fluid.

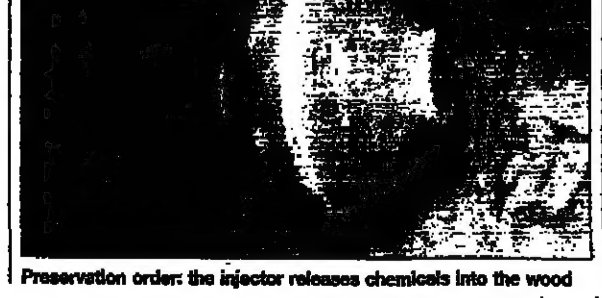
Andrew Brickell, operations manager at Preserve, says the main feature of the injector is its non-clog geometry valve: "If the preservative is leaking from cracks in the pole, the valve will reduce the flow rate."

The device is filled at the factory, so the installer has no contact with the chemicals. The preservative used is glycol-based which, due to a lower water solubility, also minimises any leaching of the chemical into the environment.

The device can easily be adapted for many purposes, including the preservation of joists, fences and underwater pilings. It can even be attached to living trees and used to inject growth enhancers or retardants into the roots.

"Pole preservation is now a huge issue for the power companies," says Mr Brickell. "As most were erected around the second world war their replacement is becoming a headache."

Preserve, UK: www.preserve.co.uk



Preservation order: the injector releases chemicals into the wood

CINEMA

Battle of the sexes

Nigel Andrews finds the stakes are high and plunged straight into the heart

Battles between men and women rage almost everywhere this week. Matthew Arnold's definition of war – ignorant armies clashing by night – will do very nicely. *Night is the time for* a physical act that to an uninitiated observer, like a Martian or small child, could look like a murder attempt. Person A is on top of person B and both are groaning, panting or (if lucky) screaming.

YOUR FRIENDS AND NEIGHBOURS
Neil Labute

SWITCHBLADE SISTERS
Jack Hill

DON'T GO BREAKING MY HEART
Willi Patterson

MY GIANT
Michael Lehmann

HOTEL DU NORD
Marcel Carné

I THINK I DO
Brian Sloan

MADELINE
Daisy Von Scherler Mayer

Whether they talk too is up to personal choice. This brings us to the first scene of *Your Friends And Neighbours*. Person A (Ben Stiller) is gabbling like mad as he ruts with Person B (Catherine Keener). She finally gasps out in exasperation: "Let's just do it. I don't need the narration. This is not a travelogue, you know."

Can anyone not guess the result? Collapse and withdrawal of stout party – and I do not mean Mr Stiller (late star of *There's Something About Mary*), just a part of him – and commencement of a savage comic six-hander about sex and infidelity.

Writer-director Neil Labute last gave us *In The Company Of Men*, where a deaf girl was seduced and abandoned by two ruthless yuppie businessmen. Here the stakes are higher and some of them are plunged straight into people's hearts. The cast of six – Stiller and his sex-obsessed buddies (Jason Patric and *Company's* Aaron Eckhart), Keener and her co-heroines Amy Brenneman (Eckhart-married love rival) and *Nastassja Kinski* (lesbian comfort fling) – play musical beds as if the music was atonal and the beds were designed by Torquemada.

Every act of rapture is followed by an inquest, as if *guilt had* to be *talked* out to the first available confessor. The talk is stumbling, hilarious, believable. These people are constantly trying to achieve what Americans call "closure" but can barely finish a sentence. When they do, it is less like closing, more like killing. Ms Keener is driven to blurt out to Stiller her real philosophy: "Fucking is fucking, it's not a time for sharing." And when he is bullied into supplying anecdotal closure to a truth-game session with his pals – on the best sex each man ever had – he just *snaps out to Eckhart*: "The best sex I ever had is with your wife" and walks from the locker-room.

Labute selects his actors with the same care that he sculpts his designer-spontaneous dialogue. Stiller looks like a medieval monk undergoing a fast; Eckhart is a walking mid-life crisis with middle-age spread and odd, improbable-looking hair (a wig?); Patric is a muscly narcissist in love with his own tape-recordings of fantasised sex. Of the women, Kinski is an itinerant flirt as light as pollen, Brenneman a beauty with visible emotional bruises, and Keener an Amazon *with steely cheekbones* and intelligence to match.

A state-of-the-art bulletin on the sex war: the male half of a six-strong cast in Neil Labute's 'Your Friends and Neighbours'

Foolish people may complain that the film is too stagey, that it is six people jawing away in plain-lit rooms with minimal camera movement. But good writing, good acting and good storytelling are not so common that we should wish them away in a delirium of purism. This is a state-of-the-art bulletin on the sex war. Why waste time quibbling *about which art?*

★

Switchblade Sisters is, for those who want it, a movie movie: a 24-year-old exploitation cheapie resurrected by *Quentin Tarantino wearing* his distributor hat. It is a movie because it won't stop moving. Rival male/female gangs run around Los Angeles waving knives, speaking dialogue like *faux naïf* graffiti, and having colourful, doom-laden interspecies romances.

It is so bad that it is almost good. (Note the "almost"). Director Jack Hill gave us the primal films of black action icon Pam Grier, *later Tarantinised in Jackie Brown*, and elicits similar scenery-chewing stuff here from white stars Robbie Lee and Joanne Nail. The film knows what it isn't – great *art – but also knows what it* is: pulp hokum at 24 frames per second, and, when possible, faster.

■

No one seems to have had any idea what *Don't Go Breaking My Heart* is, or was meant to be. A comedy? A love story? A tax loss? We are in swinging Hampstead with early widow Jenny Seagrove. The 40-ish beauty's trials include being wooed simultaneously by a pony-tailed Charles Dance, as an ageing dentist who uses hypnosis instead of novocaine, and a young American taking time off from a US medical soap (*ER*'s Anthony Edwards). *Meanwhile Miss* S's son is a failure at school sports, a Hollywood movie motif now horribly transplanted, it seems, to Britain.

With one comical-romantic subplot dying after another, the film should have been called *Four Funerals In Search Of A Wedding*. Writer Geoff Morrow and debut director Willi Patterson hone each role as if for a different movie. Seagrove is all wistful naturalism; Edwards is *standard-issue* Yank breeziness; Dance seems to be auditioning for a pantomime.

By and large there are more piquant, entertaining *passages in the* press *hand*out than the film, including the revelation that the soft-focus photography was achieved by placing a Christian Dior stocking behind the lens. The cameraman was evidently the only person to heed the urgent, unspoken call: "Put a sock in it."

My Giant is little better, though Billy Crystal inserts some bright one-liners into the resistible plot about a Broadway agent finding a Carpathian giant (played by sepulchre-toned seven-foot basketballer Gheorghe Muresan) and hoping to make him a star. I laughed when Crystal, emerging from a blackout in Romania, said: "Anyone here speak English? Either I'm in Heaven or Miami Airport." I *don't ask for much, which is* fortunate since *My Giant* does not supply it.

Hotel Du Nord, for relief, is a masterly 1937 moodpiece from Marcel Carné. You cannot get black-and-white photography like this any more; it glows, flickers and crackles like a melancholy fire. Carné's scriptwriter Jean Aurenche fills the title *establishment*, a two-star glorified dosshouse overlooking a studio canal, with the usual casualties of proto-existential drama: a pair of lovers preparing a suicide pact (Annabella, Jean-Pierre Aumont), a philosophising whore who has seen it all before (Arletty, pre-*Enfants Du Paradis*), *a crook trying* to transform his life and identity (Louis Jouvet).

It is like *The Iceman Cometh* captured by French lyric miserablism. Carné directed better movies, including those scripted by Jean Prévert. But there is a majesty here even in the fatalist minimalism. He barely moves the camera except when characters need to get past it; and he never moves the invisible goalposts that seem to hem in their lives, and that remind us that the greatest existentialist of all once spent his formative hours in a goalmouth, the famous Algerian number one, Albert Camus.

I Think I Do is gay as pink ink, or gayer. Nothing has become recent cinema better than its "casualisation" of human conditions once mentioned shyly, censoriously or not at all. Young homosexuals fall in and out of love in Brian Sloan's film and his *script feeds them* modestly funny lines to keep up their energy level.

Someone should have fed the cast of *Madeline* something funny or at least flavoursome: possibly copies of Proust dunked in *café au lait*. Surely a little adult intelligence would not have gone amiss in this pathetic whimsy about orphans and kidnapped ambassadors' sons, set in a cod France somewhere in Hollywood. Frances McDormand and Nigel Hawthorne suffer for art, or at least, one hopes, for money.

In with a storm, out with a wimper

THEATRE

ALASTAIR MACAULAY

The Tempest
West Yorkshire Playhouse, Leeds

Prospero casts his spells from a ring of stones centre-stage in Jude Kelly's new account of *The Tempest* for the West Yorkshire Playhouse. *He drops* a model ship into a bucket, where it bobs wildly up and down for a while, and consults his books. On the walls of his cell, on three sides of the stage, is chalked his one-by-one count of the days he has been here. Suddenly, he lies back and we see, silhouetted, through a perspex sheet, the life-size tempest he has been conjuring up – or, rather, the ship that is being drenched and buffeted by it, and the *sailors* who are desperately contending with it. In the foreground meanwhile, Prospero lies calmly *on his back, bringing these* things to pass. This is a strong start, but nothing that follows quite matches it. Caliban and Ariel are both costumed as Prospero clones (same old cardie, same calf-length breeches) – the meanings of which idea tend to distract one's attention from proceedings rather than to focus it – and there is lively use of a hole in Prospero's cell, into which Caliban and Ferdinand descend. Good (and economical) stagecraft abounds, in fact – but the play, so much of which rests on the audience's response to the workings of Prospero's mind, stays becalmed.

Prospero is Ian McKellen, speaking throughout in his most relaxed mode – an affected relaxation, with odd vocal rises and falls and mid-sentence pauses that make each line interesting and make each speech unlistenably *artificial. Meanwhile, the* hard predatory eyes rove foxily about, telling a different tale.

McKellen has now been a linchpin to the West Yorkshire Playhouse's repertory season of three plays, also acting Dr Dorn in *The Seagull* (his best stage performance for many years) and Garry Essendine in *Present Laughter*. The season has generated huge local enthusiasm and box-office success, and has challenged all its actors. Some have responded to the challenge better.

Will Keen, playing Trinculo as a feckless buffoon with a high plaintive Belfast accent, has profited most – whereas Claudie Blakely, playing Miranda in much the same little-girl-lost style as in her last two roles, has gained least. Timothy Walker, a damned Caliban from the black lagoon, with vulpine teeth and baleful eyes, *does something auda*ciously new with each role he tackles – but always with this intelligent actor there is an element of over-emphatic calculation that sets a barrier between him and his audience. As Ariel, his skin painted deep blue and his whole manner alert to the controlled/controlling tensions of his role, Paul Bhattacharjee finds his most congenial part to date without once persuading me that he *has talent. Three of the com*pany's actresses play the minor roles, handsomely and tactfully, yet the casting only diminishes the scale of the play.

I love the idea of repertory theatre because I love the art of acting. Moving from role to role in brisk succession, some actors find themselves – or, better, lose themselves. Thanks to McKellen's contribution, this West Yorkshire Playhouse *season* (in the *smaller*, Courtyard, auditorium) has been one of the most prestigious examples of the current swing of the pendulum back to repertory practice. Others have included the Peter Hall seasons at the Old Vic (1997) and Piccadilly Theatre (1998-99), and Tim Supple's company at the Young Vic; the National Theatre will shortly commence a repertory season of *Troilus and Cressida* and *Candide*. Will this West Yorkshire Playhouse season be the first of many? When I watch McKellen light up *The Seagull* by playing what is often deemed a supporting role, I hope so; when I watch him dim *The Tempest* by a mannered, low-key account of its central role, I lose heart. Repertory, as the critic Arlene Croce wrote 20 years ago in *The New Yorker*, is destiny.

Illustrating the pros and cons of repertory: Timothy Walker, Claudie Blakely and Ian McKellen Alastair Muir

INTERNATIONAL

Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Carmen: by Bizet. New staging by Andreas Homoki, conducted by Edo de Waart. The designs are by Wolfgang Gussmann and Gabriele Jaenecke, and the cast includes Carmen Oprisanu and Martin Thompson; Feb 12, 15

BERLIN

OPERA
Deutsche Oper
Tel: 49-30-34384-01
● Faust: by Gounod. Conducted by Sebastian Lang-Lessing in a staging by John Dew; Feb 12
● Manon: *by Massenet*. Conducted by Sebastian Lang-Lessing in a staging by Cesare Lievi; Feb 13

BRUSSELS

OPERA
La Monnaie
Tel: 32-2-229 1211
Lady Macbeth of Mtsensk: conducted by Antonio Pappano in a new staging by Stein Winge, with sets by Benoît Dugardyn and costumes by Jorge Jara; Feb 12, 16

DALLAS

OPERA
Dallas Opera
Tel: 1-214-443 1000
www.dallasopera.org
La Bohème: by Puccini. Conducted by Antonello Allemandi in a staging by Mark Lamos, with sets by Michael Yeargan; Feb 13

GLASGOW

OPERA
Theatre Royal
Tel: 44-141-332 9000
Scottish Opera: Der Rosenkavalier, by R. Strauss. New staging by David McVicar, conducted by Richard Armstrong. The cast includes Joan Rodgers; Feb 13

LONDON

CONCERT
Barbican Hall
Tel: 44-171-638 8891
Vienna Symphony Orchestra: conducted by Vladimir Fedoseyev in works by J Strauss, Mozart and Beethoven, with piano soloist Artur Pizarro; Feb 11

EXHIBITION
Tate Gallery
Tel: 44-171-887 8000
Turner in the Alps: in 1802 Turner made his first visit to continental Europe. This exhibition contains 68 works on paper, revealing the artist's initial impressions of the landscapes he encountered there; to Feb 14

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
La Traviata: by Verdi. Michael Lloyd conducts a revival of Jonathan Miller's staging. Cast includes Claire Rutter and Alan Opie; Feb 12, 16

LOS ANGELES

EXHIBITION
Los Angeles County Museum of Art
Tel: 1-213-857 6000
www.lacma.org
June Wayne: A Retrospective. Survey of the artist's printmaking work from 1946 to 1995; to Feb 15

MANCHESTER

CONCERTS
Bridgewater Hall
Tel: 44-161-907 9000
● *Mikhail Pletnev: recital by the* pianist of works by Chopin, Grieg and Schumann; Feb 17
● Vienna Symphony Orchestra: conducted by Vladimir Fedoseyev in works by J. Strauss, Mozart and Beethoven, with piano soloist Artur Pizarro; Feb 12

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5401 8181
● Klassische Philharmonie Bonn: conducted by Heribert Beissel in works by Mozart and Beethoven, with piano soloist Matthias Kirschnereit; Feb 12
● Munich Radio Orchestra: conducted by Leopold Hager in works by J. Strauss; Feb 14
● St. Petersburg Philharmonic Orchestra: conducted by Yuri Temirkanov in works by Prokofiev and Ravel; Feb 11

EXHIBITION
Haus der Kunst
Tel: 49-89-211270
Angelika Kauffman (1741-1807): retrospective of works by the Swiss decorative artist, who was a founder member of London's Royal Academy. Includes *paintings, drawings, prints and* porcelain; to Apr 18

NEW YORK

DANCE
New York City Ballet, New York State Theater
Tel: 1-212-870 5570
Celebrating Five Decades of Repertory: continuing 50th *anniversary celebrations*; Feb 11, 12, 13, 14, 16, 17

EXHIBITIONS
Guggenheim Museum
Tel: 1-212-423 3500
www.guggenheim.org
Jim Dine: Walking Memory, 1959-1969. More than 100 works make up this survey of the American artist, including photographs, paintings and performance pieces; from Feb 12 to May 16

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Moses and Aron: by Schoenberg. Conducted by James Levine in a staging by Graham Vick, with sets and costumes by Paul Brown. Cast includes Philip Langridge and John Tomlinson; Feb 11, 17

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
● Orchestre de Paris: conducted by Frans Brüggen in works by Bach, Mozart and Mendelssohn; Feb 11
● Orchestre de Paris: conducted by Christoph von Dohnányi in works by Donatoni, Bloch and Beethoven. With cello *soloist Eric Picard; Feb 17*

Théâtre des Champs Elysées
Tel: 33-1-4952 5050
Orchestre National de France: conducted by Jerzy Semkow in works by Haydn, Mozart, *Mendelssohn and Schubert, with* clarinet soloist Alessandro Carbonare; Feb 14

EXHIBITIONS
Grand Palais
Tel: 33-1-4413 1730
Un ami de Cézanne et de Van Gogh: le docteur Gachet (1828-1909). Exhibition devoted to the doctor and painter who was a friend to Cézanne, Pisarro, Monet and Renoir as well as to Van Gogh, who famously spent the last weeks of his life with Gachet at Auvers-sur-Oise; to Apr 26, then transferring to New York

Musée du Louvre
Tel: 33-1-4020 5151
www.louvre.fr
Eternal monuments of Ramses II: New Theban excavations. Display of the latest archaeological findings from the Egyptian pharaoh's tomb; to May 10

OPERA
Théâtre des Champs Elysées
Tel: 33-1-4952 5050
Opéra National de Lyon: Zelmira, by Rossini. Conducted by Maurizio Benini in a staging by Yannis Kokkos. The title role is sung by Mariella Devia; Feb 12, 15, 17

TAMPERE

EXHIBITION
Sara Hildén Art Museum
Tel: 3583-214 3134
www.tampere.fi/hilden
Tony Cragg: 33 sculptures and a large number of drawings by the British-born artist, now working in *Germany. The works on* display are from the period 1988-1998; to May 9

TOKYO

CONCERTS
Suntory Hall
Tel: 81-3-3584 9999
● English Chamber Orchestra: conducted by Norio Ohga in works by Mozart, with piano soloist Michie Koyama; Feb 11
● English Chamber Orchestra: conducted by Frank Peter Zimmerman in works by Holst, Mozart and Beethoven; Feb 13

VIENNA

EXHIBITION
KunstHausWien
Tel: 43-1-712 0495
Jean-Michel Basquiat: Paintings and Works on Paper. 100 works on loan from the Mugrabi Collection make up the first show in Austria devoted to the black-hispanic US artist, who died in 1988 at the age of 27; from Feb 11 to May 2

TV AND RADIO

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06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

Playing with fire

James Kynge explains the wider and worrying significance of recent deployments by China of missiles aimed at Taiwan

Blast from the past: Chinese warships launch missiles during a military exercise in the Taiwan Strait in March 1996 AP

The disclosure this week that China has sharply increased the deployment of missiles aimed at Taiwan threatens to disrupt efforts to ease one of the most volatile rivalries in the world.

The news comes as relations had seemed to be improving between the two rivals. Taiwan has been preparing for the highest level visit from a mainland Chinese official since the two sides split in 1949. This visitor is Wang Daohan, China's top negotiator with Taiwan, and his mission is to woo the island into "political" talks aimed at eventually broaching the vexed issue of reunification. Mr Wang's visit has been widely seen as a sign of returning stability in a relationship that was plunged into crisis in March 1996 when China tested missiles in the Taiwan Straits.

Yet against this background of apparent improvement, Beijing is, according to a Pentagon report, stationing 150 to 200 missiles in southern China, and planning to increase that number to 650 over the next few years. What is happening? The answer is that the arguments for optimism were always exaggerated. There have been several signs that relations between China and Taiwan have become more unstable over the past year or so, not less and that China's political and strategic outlook is beginning to harden.

The first problem is that, despite the tendency of Taiwanese politicians to describe the separate identity of their island as the "status quo", there is in fact no such thing as a status quo in Taiwanese politics. Rather, there is a steady increase in support for *de facto* independence. Opinion polls and election results on the island in recent years show rapidly growing backing for the idea.

This explains much of the growing instability with China. Although China threatens to attack Taiwan only if it seeks formal, *de jure* independence, the surge of separatist sentiment on the island means that Taipei is ever more reluctant to discuss Beijing's cherished goal of reunification.

Because of this, China seems unlikely to succeed in its increasingly impatient efforts to persuade Taiwan to start talks on political issues. Beijing had made such talks a precondition for Mr Wang's visit and for any subsequent thaw in relations.

The China connection

Last month, Qian Qichen, vice-premier and a key architect of foreign policy, said that the resolution of the Taiwan issue could "no longer be delayed indefinitely". He described a recent referendum on the issue of independence in a Taiwanese city last year as "playing with fire".

But despite Beijing's impatience, Taipei shows no sign of softening its refusal to embark on "political" talks with the mainland. Instead, it says it wants to discuss technical issues such as fishing disputes, the repatriation of hijackers and other subjects that avoid the question of sovereignty.

China's impatience for reunification arises also from diplomatic and strategic considerations. Officials in Beijing frequently voice frustration over what they see as the attempts of foreign governments to "play the Taiwan card".

The latest example is an argument over whether Taiwan should be admitted into the World Trade Organisation before China. Officials in Beijing believe the argument is being used by those who want to pressure China into greater market liberalisation. "It is unbearable to have these countries using Taiwan as a stick with which to beat China," said a researcher at a government think-tank. Lastly, Chinese officials are divided about whether to use charm or force in Taiwan – or a judicious mixture of the two – and the diversity of thinking could in itself be a source of instability.

The People's Liberation Army still regards the controversial missile tests in 1996 as a victory. But most civilian ministries think the sabre-rattling was a mistake because it turned Taiwanese voters against reunification. The dichotomy may mean that responses to future crises are shaped more by internal power struggles than by reasoned debate or predictable policy.

What is certain is that displays of force are themselves destabilising, adding impetus to an arms race across the Taiwan Straits and inevitably involving the US, which has signed arms agreements with both sides.

According to Patrick Cronin, at the US Institute of Peace in Washington, Beijing may not have considered how provocative a missile build-up could appear. "I don't think the Chinese leadership, knows how the outside world will view this. It will be seen as a unilateral attempt to change the balance of power across the Straits."

A senior Clinton administration official who favours a close relationship with China admitted that Beijing could not assume the build-up "will go unanswered". And one answer – though not the only one – could be Taiwan's inclusion in an Asian theatre missile defence system. Taipei has said that it urgently needs anti-missile systems.

But the consequences of US moves to include Taiwan in a mooted US-backed TMD could undermine relations between Washington and Beijing. It is difficult to underestimate how gravely China - which threatens to attack any foreign nation that tries to win independence for Taiwan - would regard such an initiative.

"China would probably see Taiwan's inclusion in a US TMD shield as the start of a cold war policy of containment," said one diplomat in Beijing. "It would alter the whole geopolitical balance in Asia."

From the US point of view, however, declining to supply protective weapons to Taiwan in the face of the increased missile deployment in southern China would be to fall down on its legal commitment under the Taiwan Relations Act, which obliges the US to provide weapons necessary for the island's defence.

In short, Taiwan looks likely to become the single biggest test of the US-China "strategic partnership" forged by Presidents Bill Clinton and Jiang Zemin as a supposed bedrock for global peace in the 21st century.

LETTERS TO THE EDITOR

Not too late to recapture Good Friday's hopes

From Sir George Quigley.

Sir, The Group of 7 brings together managers and trade unionists with an interest in Northern Ireland. We have no political axe to grind. We pride ourselves on our independence. And we view with increasing dismay the difficulties that continue to beset the full implementation of the Good Friday Agreement.

Those throughout the community who voted for the Agreement expected it to make a difference. They looked forward to living in a society free from traditional strife and tension, where the priority issues would be how best to boost investment, create jobs, reduce unemployment, eliminate poverty and improve the standard of living and quality of life. Nobody expected miracles but we all hoped for evidence of a fresh start.

The Group of 7 is convinced that it is not too late to recapture the hopes generated by the success of the political parties, against all the odds, in reaching agreement 10 months ago. It also recognises that anyone who comments on the situation has a responsibility to attempt a constructive suggestion. In this instance we believe that, for a way forward to emerge, two things have to happen:

■ The establishment of the Executive as soon as the necessary legislative arrangements are in place, involving all those participants who affirm the terms of the pledge of office. That is what the letter of the Agreement, which the parties signed up to and the electorate endorsed, would seem to require;

■ Simultaneously, the commencement of decommissioning by paramilitary organisations, republican and loyalist. That is what political reality requires and the creation of a normal, decent society demands.

The difference that the Statement the Group of 7 has drafted makes is that both sides are being asked to respond to a plea from a group of significant interests – management and union, Catholic/Protestant, of a variety of political affiliation – outside the political process. There are no easy options but we have tried to create the context (hitherto lacking) in which paramilitaries might be prepared to break the logjam on decommissioning.

Given that everybody's room for manoeuvre is narrowing, I would hope that the Republican Movement would be prepared to concede to civil society – which is not arguing for decommissioning as a pre-condition for admission to the Executive – the vitally important gesture on decommissioning which it has withheld from its Unionist opponents – who are arguing the conditionality case.

In this Statement, a substantial part of civil society has given strong and unequivocal support to a fully inclusive political process. We hope that this will be matched by those on both Republican and Loyalist sides, whoever they may be, who can deliver a start to decommissioning.

A positive response to the Statement would signal that, at last, there is real momentum within the process that would carry it through, whatever other difficulties lie ahead.

A pious hope, perhaps. But there seem to be few other promising initiatives around. The significant thing about the Statement is that it shows business and trade unions taking the bold step on to the open ground that they are asking all who have to make the Agreement work to take.

The Statement has eschewed mere exhortation and, very specifically, it has addressed a request to both sides of the current debate. Each is being asked to do something that neither hitherto has been prepared to concede to the other in what is currently structured as a classic zero-sum game.

Sir George Quigley,
chairman,
Group of 7,
Belfast, N Ireland

Partnerships cut both ways

From Prof Harvey M. Sapolsky.

Sir, European governments cannot have it both ways. According to your correspondents ("Europe and US in peace force wrangle", February 8), these governments refuse to contribute troops to Kosovo without a US commitment to provide ground force to the same cause. But they have no problem in creating exclusive European weapon procurements ("Germany gives boost to EU missile consortium", February 8). As one senior German official put it: "It would be ridiculous to pay for the development of the platform [Eurofighter] but to buy the missile from America."

This is a strange partnership indeed and one that is surely unsustainable with attitudes such as this when the US has so little direct interest in the Balkans. If European governments insist on a partnership in one aspect of security, one that involves their interest in containing nearby chaos, they should not be surprised when the US demands a partnership in another: the maintenance of defence industry jobs, one now becoming more salient to it.

Harvey M. Sapolsky,
director,
MIT security studies program,
Massachusetts Institute of Technology,
Cambridge,
MA 02139, US

Nationality is not a commodity but a set of rights and duties

From Mr Niels Busink.

Sir, In "One in the eye for Schröder" (February 9), commenting on the opposition to dual nationality in Germany, your leader writer says: "That is a disturbing sign of Germany's unwillingness to face up to the reality of being a multicultural society."

I grew up in Bavaria with Dutch citizenship, very much conscious of "dual nationality". Even so, I do not think one should judge opposition to dual nationality as resistance to the integration of foreigners. Germans are overall a very conservative people and, especially in the south, very proud of their country. Receiving nationality is not receiving a tradeable commodity. It is a set of civil rights and duties. Germans are not resistant to integration; they just see German nationality as something special, not to be given away too easily.

The demand of most people, therefore, is that when receiving German citizenship one should give up one's original nationality, in doing so showing full commitment to German citizenship. I believe this is a legitimate demand.

Niels Busink,
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Dissent cordiale

John Lloyd found the British and French elites enjoyably splitting along predictable lines at an annual gathering dominated by the euro

It is not often that national elites conform so satisfactorily to their stereotypes as did the British and French at a recent gathering. Inevitably, this one was consumed by the euro. And – it became uncomfortably obvious to the British – the euro was consuming the French.

A defining moment came when the head of a large French company interrupted a British speaker by exclaiming that the European project was about the building of a state, not the mere extension of commercial freedoms. This was an "I told you so" moment for the British Eurosceptic element: a distinguished member of which did, indeed, look on impassively.

It was not the only such moment. The most humbling sight (for a British participant) was the literal intoning of texts to snooze to by two British ministers – so rigidly on-message as to give no possible hostage to fortune – while their French equivalents free associated with brilliance and enthusiasm on the possibilities of a more integrated, activist and world-leading Europe.

The occasion was the Franco-British Colloque which for nearly a decade has gathered together politicians, business leaders, scholars and commentators to chew over (in confidence, which is why this article is constrained to work with anonymities) an agenda carved out of a single, dominant theme.

World-leading was that dominant theme – of the French. Any American present (there were none observable) would have felt, at least, mildly patronised by much of the discussion. There was an assumption, put best by a distinguished French scholar, that the US had nodded off on its watch as the only superpower and required assistance in running the world. This was a job, he averred, that Europe, underpinned by the unifying effects of a common currency, now had within its grasp, if not yet within its competence.

It was not all unadulterated *hauteur*. Another French policy advisor noted that as Britain under New Labour had moved towards Europe, so France had moved toward the US – in economic management style, for example, and in greater acceptance of Nato.

But, in general, the conference reflected a prevailing Amero-scepticism. A high official of the European Commission (who was not French) warned of the contradiction between the official US rhetoric of welcome to the euro and the clear danger (for the US) that it would be a competitor to its currency and, potentially, a separate centre for global policy with different and clashing priorities. Would policy towards the former Soviet Union, for example, have been the same had Europe been in command?

Will the US, this official asked, submit itself to the authority of international bodies when the decision of these bodies is likely to contradict its national interests? Or will it, as it had in the past, proceed with its own course of action on the grounds that if it is to shoulder all the burdens it cannot be constrained by those who cannot, or will not, share the load.

Most of the British recoiled from the logic of *le défi Européen*; as they did from what they felt was a baseless conflation of monetary with political union. Stereotypes ruled indeed. The British were credited by the French, and credited themselves, with being pragmatists – and so questioned the need for closer integration, whether of fiscal regimes, tax rates, defence and foreign policy or political governance. Even those Britons – the majority present – who would be considered Euro-enthusiasts in their own country talked the language of gradualism and argued that before more power was ceded to a Euro-state, the need for it had to be demonstrated first.

It was clear in the discussions, as it had been much more so in the ministerial speeches, that the British were constrained by being outside the euro-zone and not knowing when they would be in.

And there was also the constraint of being acutely aware that much of this talk would be hard to render even intelligible, let alone popular, back across the Channel. One of the most distinguished British politicians present spoke passionately about the need for Europe's institutions and fledgling governance to be made comprehensible and open to its electorates. And he claimed that the distance between these was increasing in almost all states, not just in the UK.

It was another telling moment – the more so for being contrasted with a speech by a French euro-parliamentarian who said that the main problem facing Europe was the need to supersede the nation state.

It was, in almost caricature form, the contrast between the practical and the cerebral; the desire to feel the firm ground of public assent versus the impetus to soar above quotidian concerns to grasp a higher reality. Not wholly: when challenged, the French side all pointed to polls which showed the people were increasingly keen on Europe.

Often it seemed the two sides were speaking about the same things. Both acknowledged the obvious problems – lack of a coordinated response to the murderous events in Kosovo; a mutually cautious approach to the loss of national states' veto power in the EU; a looming and intractable agenda on reform, which must be radical if the expansion to the east was to be a success.

But the instinct of the French, buoyed by the successful creation of a currency many in the UK believed would never emerge, was for more competence to move to the European level; the reaction of the British was to doubt, to warn and to suck the teeth.

In all this, the French elite revealed itself as a class – self-selecting, self confident, unified on the strategic matters – which saw itself as responsible for an historic event, in the creation of the euro. A class which saw itself as conscious of its presumed duty before history. That is part of the French style, no doubt; but it is also part of the Franco-British substance, a dull sense on the western side of the Channel of having missed a boat. Again.

CONTRACTS & TENDERS

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Thursday February 11 1999

China tests US patience

If China expected the glow surrounding President Bill Clinton's visit last year to herald a new age in Sino-US relations, then it must by now have been rudely disappointed. But the most of the blame for the failure to build on that exchange lies squarely on its own shoulders.

The latest revelations in Washington that China has been sharply increasing the numbers of missiles deployed against Taiwan will only damage bilateral relations further. While the Clinton administration does not contest China's claim to sovereignty over Taiwan, it cannot and must not allow that claim to be asserted through force. The risk to regional security is simply too great.

Coming on top of China's recent crackdown on dissidents and its evident reluctance to open vital markets in support of its application to join the World Trade Organisation, the missile deployment confirms the impression that China takes a one-sided view of engagement. A dynamic and constructive relationship between the US and China is highly desirable. But Beijing still has to realise that such a relationship cannot be conducted solely on its own terms.

The risk now is that Mr Clinton's policy of engagement will be perceived at home as merely having opened the door for China to take advantage of the US. Mr Clinton could thus quickly be forced to take a much less conciliatory approach. It would be difficult even for Beijing's friends in Washington to support another course while China shows so little signs of responsible behaviour on trade or security.

By sending aircraft carriers to the Taiwan Straits during the last missile crisis in 1996, the US rightly demonstrated there was a line beyond which China could not pass without provoking a response. China should be left under no illusion that the US would do so again if necessary.

Already the evidence of missile accumulation adds strongly to the case for Taiwan becoming part of the theatre missile defence system under discussion between the US and other Asian countries. China has made its objections abundantly clear. But, if President Jiang Zemin wishes to avoid a dangerous escalation of the situation in the Taiwan Straits, he must back away from a show of force which will in any case drive Taiwan inexorably away from unification.

Mr Jiang clearly wants a good relationship with the US, but many in China's military still apparently believe the missile tests advanced China's case with the people of Taiwan and the rest of the world. The visit of Premier Zhu Rongji to Washington this spring will be a good opportunity to remind China forcefully that allowing such a view to prevail will incur a heavy price.

Internet life

It is a sign of the times that when an internet stock gets close to the real world, its value falls.

The drop in price of Lycos, after Tuesday's announcement of its merger with Barry Diller's USA Networks, is a case in point. At a stroke, it creates the sort of integrated e-commerce business that internet hype is founded on. It brings together Lycos' "portal" to the world wide web and USA Networks' television, home shopping and ticket-booking operations.

Of course, these elements might not be worth the $20bn or so market capitalisation indicated by their pre-merger price. And Lycos may indeed have been out-negotiated by Mr Diller, a man who managed to wring a grudging respect from his steely former boss, Rupert Murdoch.

But that is not the real reason why internet investors are spooked. Instead, they seem to have taken fright at the worryingly concrete nature of the benefits Mr Diller claims for the merger.

True, Mr Diller started promisingly. "I think we're at a period of new convergence of information, entertainment and direct selling," he said on Tuesday. Had he stopped there, encouragingly vague, the market might not have blinked.

But he and his colleagues went on to cite real potential synergies: the 2,000 telesales people at Home Shopping Network, the 1m phone calls his business can handle each day, the 200,000 units it can ship. These are the sort of practical assets that e-commerce will need as it moves into the mainstream.

Unfortunately, they have a known track record and earnings stream. That makes them depressingly mundane. The real high-flyers among internet stocks have lacked such connections to earth and are, thus, capable of soaring weightlessly into the empyrean.

Indeed, part of the attraction of internet stocks lies in the sense they offer of escaping altogether from the physical world, with its tiresome insistence on delivering real goods to real people. Businesses like Lycos have attained their heady valuations by offering weightless electronic services, such as searching the web, to disembodied eyeballs.

At some point, internet stocks will have to come down to earth. This means not merely adjusting to more normal valuations but also coping with everyday life. They will have to become ordinary businesses, facing up to the run of the mill tasks of dealing with customers, squeezing out profits and swallowing their inventory mistakes.

Mr Diller's business already does this. The market's edgy reaction to his deal with Lycos is a reminder that the word "e-commerce" is 89 per cent "commerce" and only 11 per cent "e".

UK inflation

The extent to which politics has been removed from UK monetary policy is remarkable. That is partly because, after deep recessions at the start of the 1980s and the start of the 1990s, the economy is set to slow down this year without grinding to a nasty halt. And partly because the Bank of England's monetary policy committee, which last week held its 21st meeting, has come of age.

The Bank's inflation report, published yesterday, gives a central forecast of growth of ½–1 per cent this year, followed by a return to trend growth of about 2¼ per cent in 2000. The central projection is for inflation remaining at about its 2.5 per cent target rate, even though unemployment – at 6.2 per according to the Labour Force survey – is at its lowest rate since 1980.

These forecasts are subject to great uncertainty.But the central forecast, the happy outcome of a short, sharpish slowdown followed by a return to growth, suggests that there has been a fundamental change in the UK economy. Inflation, so long a fearsome beast, appears subdued.

Low UK inflation in large part reflects a world pattern. There is virtually no sign of inflation in the US or the euro-zone. In Japan the major concern is falling, not rising, prices. The crisis in emerging markets means that inflation, for the most part, is low. As these economies attempt to export their way out of trouble, that will help keep a lid on British prices and wages.

Low inflation also reflects changes in the UK labour market. The reforms of the 1980s mean that falling unemployment does not unavoidably lead to wage inflation. Moreover, a growing number of workers, particularly marginal workers, are employed by small firms that are better able to keep a check on wage growth. Although, with the average earnings index suspended, the evidence is patchy, wage growth has stabilised since last spring.

The government has played its part by keeping – so far – a tight rein on public sector spending and pay. It has also helped by setting the Bank a sensible and symmetrical target. It must now follow up by finally removing mortgage interest relief in the next budget. That might help offset the risk of house price inflation sparked by low interest rates.

The MPC's flexibility and transparency, acknowledging disagreements and uncertainties, are also to worth noting. It has received a double reward. Even as the economy slows, no-one seriously questions its independence. And, as the inflation report shows, since independence inflation expectations have converged towards its target level.

Why the people love him

President Clinton's high popularity ratings are the measure of what his opponents are up against and the last line of defence that they have failed to knock down, says Gerard Baker

When President Bill Clinton escapes the executioner's blade in the final vote on impeachment, expected in the Senate today, he will have no shortage of people to thank for his survival.

His lawyers have done a clinical job in arguing that the president's alleged crimes in the Monica Lewinsky affair did not warrant his conviction and removal from office.

White House and other supporters, led by Hillary, his wife, have stuck with Mr Clinton (for the most part, anyway) and helped him to remain focused on the policy tasks before his administration. Congressional Democrats have throughout the long, and often painful, process put to one side their own distaste for what Mr Clinton did and, in the end, are likely to show they have more than enough votes in the Senate to keep him in office.

But when it dawns this weekend that the trial is finally over and Washington contemplates returning to a more normal order of political debate, it will be clear to whom Mr Clinton owes the greatest debt – the American people.

From the day the Lewinsky story began to unfold 13 months ago, a clear two-thirds of voters have told pollsters they believe Mr Clinton should not be removed from office. These are among the highest sustained ratings any president has ever enjoyed.

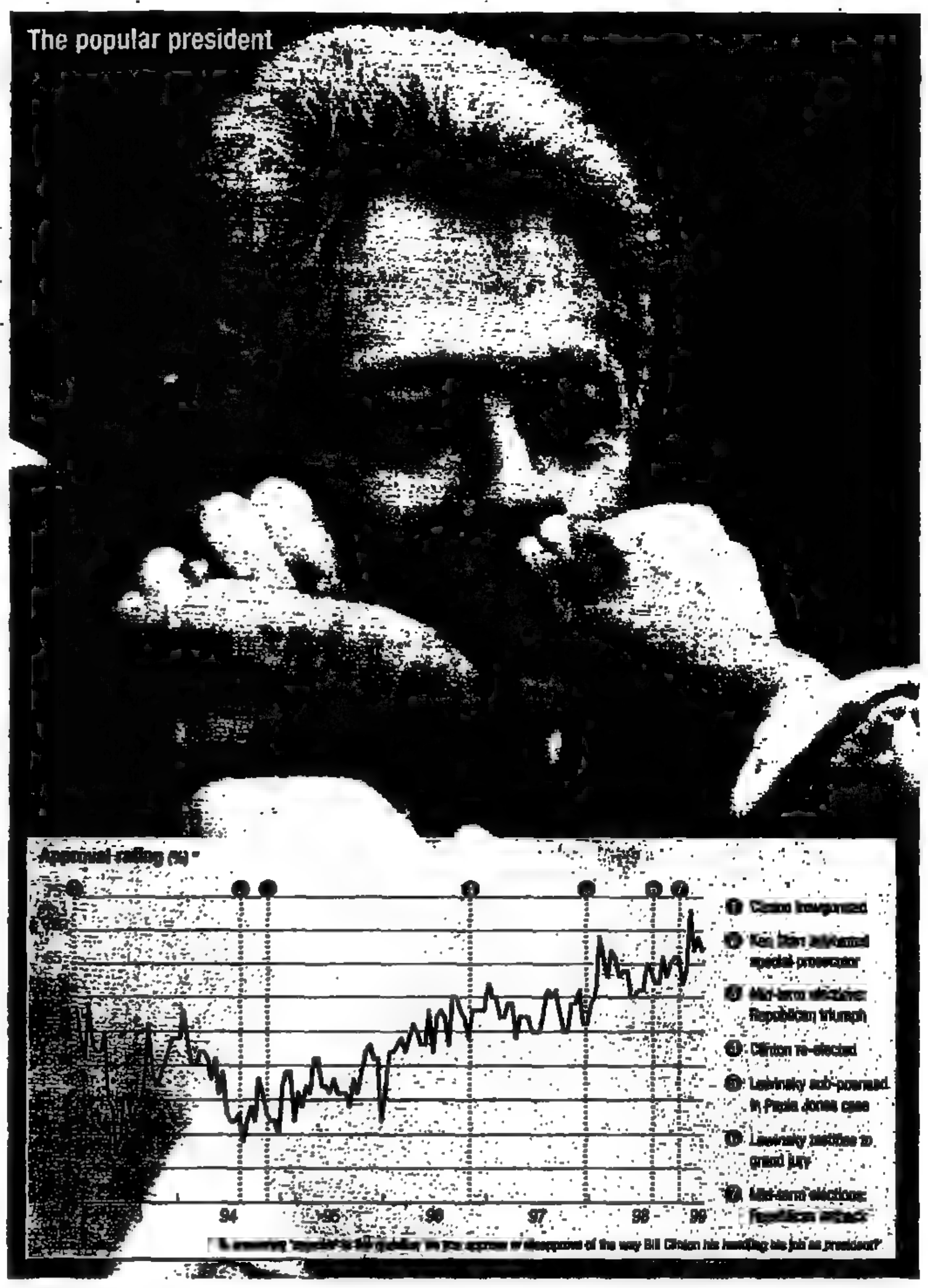
While deploring his personal conduct, Americans have consistently said they admire Mr Clinton's overall performance as president and oppose his resignation or impeachment. The president has maintained his support even among people who think him guilty as charged. It is inconceivable that he could look forward now to an acquittal – as surely he can – were it not for such poll ratings. They have changed his prospects and the political landscape.

Last November, voters translated their responses to pollsters' questions into electoral fact when they delivered a startling blow to congressional Republicans in the mid-term elections. Instead of gaining seats as they, and almost everyone else had expected, Republicans lost them. When Congress went ahead and impeached Mr Clinton in any case, popular support for the president grew even stronger.

Throughout the five-week long Senate trial, leading senators of both parties have acknowledged that, though they have, of course, followed their conscience in the deliberations, they have also listened diligently to the voice of public opinion.

Robert Byrd, the senior Democratic senator from West Virginia and the Senate's self-appointed constitutional guardian, revealed the simple truth at the weekend. Though he believed Mr Clinton probably had committed perjury and obstructed justice, the senator was extremely unlikely to vote for Mr Clinton's conviction and removal because the voters had indicated they opposed it. "He has done some good things for this country and the American people don't want him removed," the senator said.

What is behind this unwavering support for Mr Clinton? Why, even as he became the first elected president in America to be impeached, does he enjoy such sustained popularity?



On the face of it, there is a simple reason: American voters think him not guilty of the crimes of which he is accused and have rallied to a man they perceive as being hounded by his enemies. And this is the argument that White House officials make. They maintain that the president is not guilty of the crimes of which he is accused. They do not think a case was made that Mr Clinton committed impeachable offences. And, consistent with this view, some believe his high poll ratings will fall once the president is acquitted.

Whatever happens on that score, though, the polls suggest popular views are more complex than this account implies.

A year ago, a majority of voters indicated that if Mr Clinton had, in fact, obstructed justice in the Lewinsky case, he should be impeached and removed from office. At that time, a similarly large majority of respondents thought that he was not, in fact, guilty of those offences and therefore should not be impeached.

Today things are different. According to a poll this week, a majority of voters now believe he did, in fact, commit perjury and obstruct justice: but an even larger majority think he should stay as president. In other words, a significant number of Americans think he should stay as president even though they believe he committed high crimes.

That suggests support for Mr Clinton runs deeper than a simple judicial calculation by the people of guilt or innocence. This

> **'No president will be removed with the economy at record highs. People vote with their wallets'**

might be because the past year has persuaded most people that his offences did not, in fact, rise to the level of "high crimes and misdemeanors". But it is just as likely that Americans put the particular level of presidential offence second to their desire to keep him in office.

What other factors lie behind his support?

For most political observers the main answer is: the economy. The US is enjoying the most favourable economic conditions the country has seen since the 1950s. The stock market, to whose fortunes almost half of the US population is tied, continues to enrich tens of millions.

In the past two years Mr Clinton has benefited from the political fruits of this success. There a pervasive sense of economic and social well-being borne of the strong economy and falling crime rate and Mr Clinton is given a large amount of credit for the economic success. Voters seem to attribute at least some of the economic success to Mr Clinton's much-vaunted efforts to eliminate the budget deficit.

This perceived success presents a striking contrast with the decline and fall of Richard Nixon in 1974. President Nixon's impeachment trauma occurred against a backdrop of economic crisis. Some have even suggested that Mr Nixon's principal crime was not what he might have done to cover up the break in at the Watergate, but to preside over a slumping economy.

Between the spring of 1973 and August 1974, when he was forced to resign, Mr Nixon's approval rating fell from about 60 per cent (roughly the same as Mr Clinton now enjoys) to less than 30 per cent. This decline coincided almost precisely with a sharp deterioration in US economic performance. Over that period, output suffered its most severe slowdown since the second world war, unemployment rose by almost 1m and the inflation rate doubled to 10 per cent. On Wall Street the stock market fell by a third.

Since the Lewinsky affair broke last year, by contrast, the US has created more than 3m jobs, the unemployment rate has dropped to a 28-year low, inflation has fallen to a 40-year low and growth has been at its strongest sustained level in more than a decade. On Wall Street, the Dow Jones 30-Industrials has risen more than 15 per cent.

According to a recent paper by William Schneider, a psephologist and political commentator, the big economic gainers – those with incomes of more than $50,000 per year – have turned in droves towards Bill Clinton and the Democrats. "You'd think people making a lot of money would be trending conservative. But these are Clinton's New Rich."

Senator Byrd argues that this has made conviction impossible. "No president will ever be removed, in my judgment, when the economy is at record highs. People are voting with their wallets in answering the polls."

But Mr Clinton's success with the voters seems to go beyond a somewhat cynical calculation that he has made them better off.

There is increasing evidence that the electorate likes and approves of Mr Clinton's broader record as president. Recent surveys have indicated that voters like his redefinition of the role of government, with its emphasis on smaller, piecemeal programmes tackling problems that may seem boring but actually make a difference, such as increased parental leave.

"Americans feel that Bill Clinton actually does feel their pain. His emphasis on the micro aspects of government policy – calls for 100,000 new teachers, improvements to Medicare (the health insurance system for the elderly) – have been scoffed at by the big ideologists but they are highly popular with the voters," says Norman Ornstein, a scholar at the conservative-leaning American Enterprise Institute.

There is one last factor in Bill Clinton's remarkable approval rating, one that is more attributable to his good luck than his achievement: the quality of his opponents.

Since the Democrats' ignominious defeat at the hands of the congressional Republicans in the mid-term elections of 1994, Mr Clinton has, in effect, been running in opposition to the Republican leadership in Congress.

In the post-cold war political environment, the absence of an external threat has diminished the so-called "imperial presidency" and increased the power of the more domestically focused Congress. But, by defining himself in opposition to the anti-government platform of the Republican leadership in Congress, Mr Clinton has given himself a role: the people's bulwark against rampant conservative Republicanism.

The events of the past year can be seen as the acme of that political dynamic – an embattled president, defending the country from the excesses of an out-of-control imperial Congress. Or as Mr Ornstein puts it: "He's had the advantage of having political opponents – Gingrich, Starr and the rest – who are so obnoxious that people have reacted with horror and rallied to his support."

OBSERVER

Hevesi goes heavyweight

When has New York city's controller, in charge of the purse strings for America's most chaotic city, wielded so much power? Alan Hevesi, the Democrat who holds the position, now appears to have the future of Deutsche Bank in his hands, even though he's got no jurisdiction over it.

All the attention stems from would-be mayor Hevesi's role last year in threatening Swiss banks with economic sanctions. He persuaded hundreds of local politicians to join him, forcing Swiss banks to make their historic $1.25bn settlement. A tall and statesmanlike figure, he did it without resorting to inflammatory rhetoric.

Now, his pronouncement that Deutsche's acquisition of Bankers Trust shouldn't proceed until the bank has settled with Holocaust victims has sent shivers through Wall Street – even though the merger is a matter for the New York State Banking Commission and the Federal Reserve.

The Nazi gold affair has shot Hevesi to prominence but he's been playing a long game. More than a decade ago, he led a picket of US legislators outside Germany's Bitburg cemetery, where SS officers are buried, during President Reagan's visit.

Now his next step might be the mayoral parlour. A moderate liberal with a strong power base in the borough of Queens, Hevesi is already the overwhelming favourite to win the next mayoral election, when Republican Rudy Giuliani's term ends in 2001. There's just one problem. Giuliani has ambitions to go to Washington, either as senator or president; if he leaves early, he'll be succeeded by New York public advocate Mark Green. Another Democrat, Green might be hard to shift once he's in the hot seat.

Rumours brewing

Egyptian brewer Al Ahram Beverages raised a glass yesterday to government plans to hand it a load of tax perks.

The 100-year old beer producer has been fending off a stream of "false rumours" that it wasn't going to get a 10-year tax holiday on profits from its new brewery near Cairo – promised by government when the company was privatised.

Such an about-turn would have scuppered the company's plans to protect its 90 per cent share of the alcoholic beer market. But although the brewer found time to toast the government's investment-friendly approach, it hasn't stopped the hunt for the rumour-mongers.

A rival company is suspected by one industry analyst. But others who have watched the rise and rise of the Egyptian company are more Machiavellian in their analysis, suggesting the rumours may have started closer to home in order to force the government's hand. "That's the way things are sometimes done around here. It keeps everybody on their toes," says one cynic.

Golden handshake

The departure of Barrick Gold chief Paul Melnuk after only 9½ months has set tongues wagging. A row with group founder and chairman Peter Munk is the most popular explanation. Carrying the can for messing up Barrick's abortive bid for Argentine Gold was another.

Barrick itself, one of the top six mining groups in the world, insists neither explanation is true and that Melnuk, 44, simply decided to go for personal reasons. The company hopes to find a successor within a few weeks. As for who'll take decisions until then, the company reckons it's unlikely any decision will crop up that can't be made by Munk or his colleagues. Decision making, it seems, is collegiate at Barrick.

And that could be the clue to Melnuk's departure. His job was a new one, created when Munk started spending more of his time on his property and retailing interests than he did on gold. "Melnuk never really made a place for himself," commented one analyst. Another says his performance at Barrick has been unexceptional, given his record elsewhere in the Munk empire.

Being chief executive at a company that doesn't need one – and seeing as gold's lacklustre performance means Barrick shares won't turn his share options into megabucks – why hang around?

Green 'greenback'

Many American economists love the idea of Brazil solving its economic troubles by setting up a currency board, in which every Real in circulation would have to be backed by a dollar held in the vaults of the central bank. This would put a full stop to any temptation to debase the currency, as Brazil has done repeatedly and in spectacular style in the past.

But Observer can't help wondering how happy the mighty dollar's guardians would be if Brazil really were to adopt the currency. Would this mark the beginning of a downward spiral for the greenback, discredited by association with a country that has created and destroyed half a dozen confetti currencies in the last 10 years or so?

How long would it be before Alan Greenspan or his successors were forced to knock three zeroes off the dollar, which would inevitably be substituted by a stillborn "new dollar" worth a few thousand times more than its hapless predecessor? Doesn't bear thinking about.

The Financial Times

100 years ago

Nicaragua Canal Scheme
Washington, 10th Feb. In the House of Representatives to-day, Mr. Hepburn gave notice that he would offer his Nicaragua Canal Bill as an amendment to the Sundry Civil Appropriation Bill. The chief features of the Hepburn Bill are as follows:- The President is authorised to purchase from Nicaragua and Costa Rica the territory necessary for the building of the canal, and then to proceed to construct it. The sum of $115,200,000 is appropriate for its completion.

50 years ago

Burma Defers Land Takeover
Rangoon, Feb. 10. Land nationalisation, which the Burmese Government proposed to introduce throughout the country, has been shelved possibly for an indefinite period by disturbed conditions in the country, it was authoritatively learned here to-day. Until the question of equitable compensation payable to Indian landlords is settled between the Burmese and Indian Governments, the Land Nationalisation Act is not likely to become operative.

FINANCIAL TIMES
THURSDAY FEBRUARY 11 1999

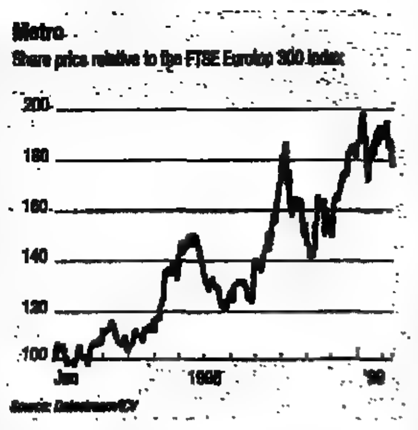
THE LEX COLUMN

Deutsche builds Trust

Deutsche Bank is buying Bankers Trust to guide it through the Wall Street jungle. The German bank surely never imagined the political morass it would have to navigate, merely to steer the $10bn acquisition through a deluge of Holocaust-related lawsuits. But Deutsche is learning fast. The courageous decision to publicise documents proving it had financed Auschwitz demonstrated its good faith. The decision of Rolf Breuer, chairman, to accompany a German delegation to Washington was another smart move, signalling his willingness to reach a settlement.

Add in the strong desire among US regulators for Bankers Trust to find a satisfactory buyer and Deutsche's chances of being allowed to complete its purchase are improving. In that light, Mr Breuer's recent comments that further delay could still prompt Deutsche to pull out look like ill-advised bluffing.

Mr Breuer's impatience is understandable. He wants the purchase completed by June. The German government's plan to set up a large umbrella fund, with contributions from all Holocaust-tainted banks and industrial companies, could take rather longer. In the end, however, a comprehensive settlement is the best guarantee *against current and future claims.* And it would probably be cheaper for Deutsche – certainly less than the "multiple of billions" of dollars the US lawyers are demanding – than doing a deal on its own. Having come this far, Mr Breuer should not be over-hasty now.



German retailing

No wonder Wal-Mart has chosen Germany as the jumping-off point for its European invasion. As a market, it is tailor-made for the US discounter. Not only are German shoppers highly cost conscious – playing to Wal-Mart's strengths – but the market seems to have been bypassed by the retail revolution. Germany remains a country where credit cards are turned away in shops.

Despite being a long way from achieving critical mass, Wal-Mart is already shaking up Germany's retail conglomerates, which have long dominated the scene without doing anything very well. The largest of these, Metro, is starting to heed the threat and plans to sell subsidiaries accounting for 15 per cent of group sales. It has also won popularity with investors for its strategy of building a pan-European cash and carry business. But with the market – flat for five of the last six years – again having stalled over Christmas, more restructuring will be required.

However, focusing on core business alone will not solve the two biggest problems facing German retailers: low productivity and lack of innovation. German *supermarkets, for instance, generate* annual sales of only €5,500 ($6,215) per square metre against about €10,000 for their French rivals. Innovation will be an even harder problem to solve. In the end it will only happen as more foreigners come into the market and bring with them the best practice from their home markets.

BSkyB/Canal Plus

Is the idea of a pan-European pay-television company any more than just the rumour du jour? Rupert Murdoch does, after all, announce about three times as many negotiations as actual deals. But the idea of a pooling of interests between his 40 per cent-owned British Sky Broadcasting and Canal Plus should not surprise that much. The businesses dovetail nicely enough, with BSkyB almost wholly dependent on the UK market.

Canal Plus, by contrast, has suffered start-up losses in diversifying away from its competitive home market. It would love to get a share of BSkyB's digital action in the UK. Yesterday's results from BSkyB showed outstanding digital sales – 350,000 in four months with 34 per cent genuinely new, not just migrating analogue customers. No other digital platform has ever gained such mass so fast. Equally impressive is BSkyB's interactive service, a home shopping, banking and e-mail facility that should prove a crucial competitive advantage in the platform war against rival On Digital.

But regulators, who have opposed national pay-TV monopolies, will doubtless shudder at the prospect of such a dominant European broadcaster and look closely for any sign of an anti-competitive continental carve-up.

Shareholders, too, should probably question how compatible BSkyB's aggressive culture would be with that of a French blue chip.

LucasVarity/Federal-Mogul

So Victor Rice has got his wish. Despite last year's little local difficulty with UK shareholders, he will again go west to head the autocomponents side of a US business. Those domestic shareholders, whom he refused to woo, can console themselves with £4bn ($6.5bn) cash and a *premium to the recently depressed price.* Nevertheless, the takeout price – below the 12-month high – does not look over generous. It is less than one times sales and, taking out about £200m cash, little more than 10 times operating profits. TRW is aiming, conservatively, for $200m savings, which ought to be worth well over £800m. It all seems a bit sad, especially as GKN has shown that the biggest and best UK engineers need not be unloved.

Federal-Mogul's withdrawal after all its brave words seems a little odd. Granted, the group is highly geared: $8bn of net debt balanced on a market capitalisation of $4bn. And it would have had to bid at least 300p a share to beat TRW. But given its plans to pay half the consideration in stock, the enlarged group's ratio of debt to enterprise value would have remained fairly stable at 40-45 per cent. Perhaps Federal-Mogul's US shareholders were less worried about leverage than the prospect of earnings dilution and the rapid-fire acquisition policy of Dick Snell, chairman. Even those with big, hairy, audacious goals have to draw breath once in a while.

Taiwan plans to bolster defences against China

Albright to discuss missile build-up in region at Beijing meeting

By Mure Dickie in Taipei and Stephen Fidler in Washington

Taiwan yesterday said its anti-missile defences needed *strengthening in response to China's* missile build-up across the narrow strait that divides the two countries.

The defence ministry in Taipei said Beijing's past actions showed that counter-measures were vital.

The statement followed a Financial Times article yesterday citing a Pentagon report for submission to the US Congress.

The report says Beijing has stationed 150-200 M-9 and M-11 ballistic missiles in southern China and plans to raise the number to around 650 over several years.

The reported escalation comes amid a heated debate in Taiwan over the possible development of anti-missile defences that some hope could remove the threat of Beijing raining warheads on the island's vulnerable cities or sea-lanes.

James Rubin, US State Department spokesman, yesterday said the military balance in the region would be discussed by Madeleine Albright, US secretary of state, during a two-day visit she will make to Beijing early next month.

But he said the issue would normally be part of any discussion with China and he declined to comment on the contents of the Pentagon report. There was no comment from the Chinese authorities.

Mr Rubin said Taiwan was currently addressing its own capabilities and needs for theatre missile defence – but that *its interest* "at this point appears to be primarily informational".

Taiwan's Ministry of Defence said it was currently aware of more than 100 missiles aimed across the narrow strait that divides the mainland and island, ruled by rival governments since 1949.

Local media have quoted Tang Fei, Taiwan's new defence minister, as saying at least 120 mainland missiles threaten the island "every day". Taiwan's China News Agency reported in December that Beijing possessed 200 M-9 missiles, which have a range of around 600 km, and 48 M-11s, which have just half the range but which can carry a heavier warhead.

Pentagon officials are understood to have conveyed the information in the report to the Taiwanese authorities.

China, which considers Taiwan a rebel province, fired M-9 missiles into the sea near the island in 1995 and 1996 as part of military exercises intended to quash dreams of formal independence among the island's 21m people.

Taiwan Defence Ministry officials declined to comment on Beijing's deployment plans but said they maintained a close watch.

"The Chinese communists' missile test exercises made even clearer our pressing need to set up an anti-missile warfare capability," the ministry said. Finding ways to strengthen Taiwan's anti-ballistic missile capability was now an important military policy, it said.

Alarm bells over China's nuclear plans, Page 8; Playing with fire, Page 12; Editorial Comment, Page 13

Kawasaki is latest Japan steel group to issue profits warning

By Alexandra Harney in Tokyo

Kawasaki Steel yesterday became the third Japanese steel manufacturer in a week to issue a profits warning when it said losses would balloon to Y100bn ($877m) on turnover of Y1,100bn in the year to this March.

The warnings, on the eve of a preliminary ruling by the US Commerce Department on anti-dumping charges filed against Japanese steelmakers, underscore the depth of the problems in Japan's steel sector.

Companies have been hit by a sharp decline in exports since US steelmakers moved to file anti-dumping charges last year. All but one of the big five producers are expecting losses this year, and the resulting deterioration in cashflow is hampering companies' efforts to carry out necessary restructuring cuts.

Analysts said the situation was likely to provoke a response from the Japanese government, possibly in the form of loans to support the weakest companies in the industry.

NKK, the number two steel company which this week warned that its losses would be larger than the Y109bn already forecast, is believed to be preparing a request for additional funding from the Japan Development Bank, a government-backed institution.

The warnings indicate the pain in Japan's steel sector is spreading. Last week Nippon Steel, the industry leader, said it did not expect to make a profit this year because of worse than expected market conditions.

Although Yoichi Shimogaichi, NKK president, suggested prices had forced a profits revision, Kawasaki said the anti-dumping case had prompted an unexpected collapse in exports and revenues.

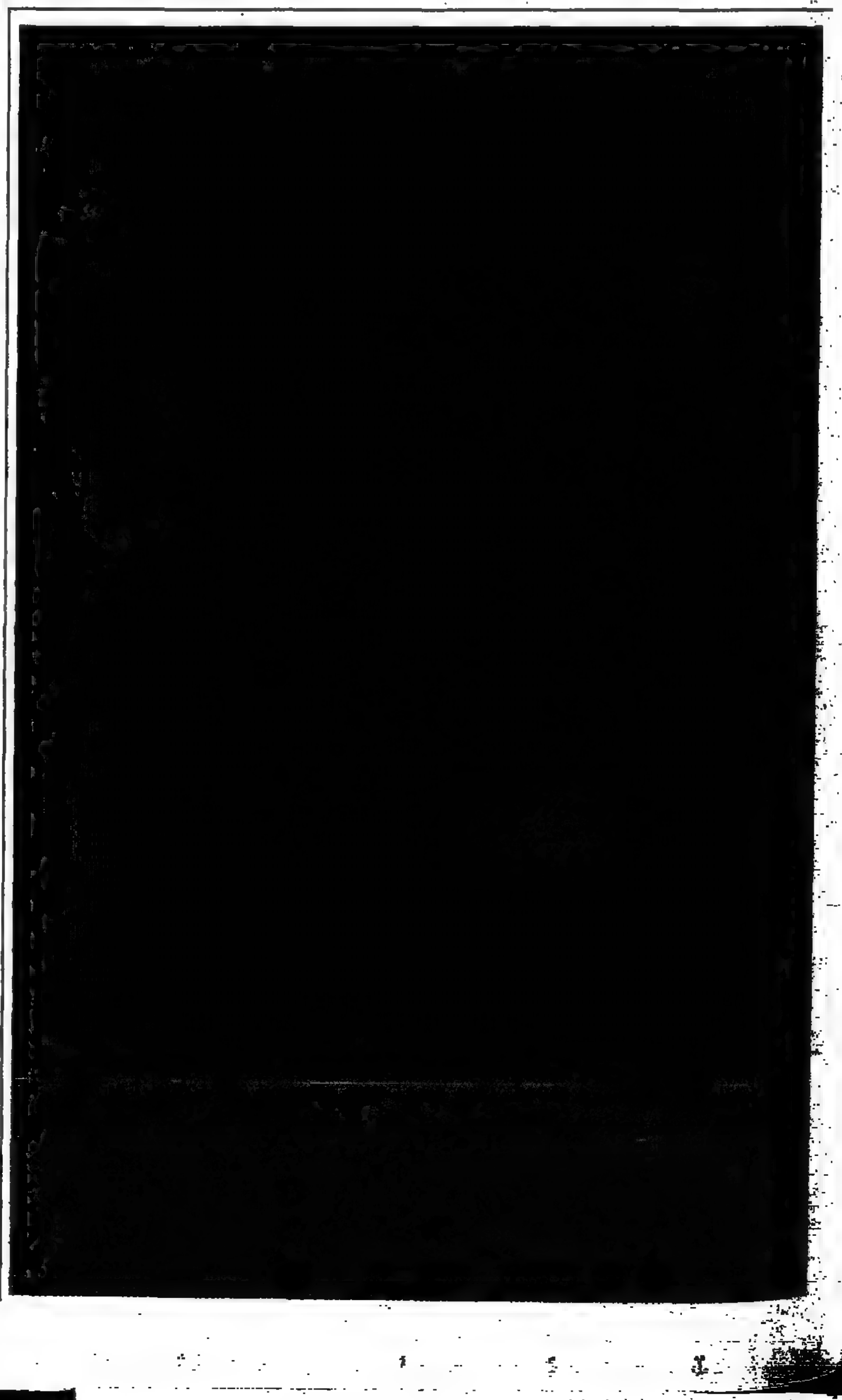
Kawasaki, which recorded net profits of Y8.5bn on sales of Y1,243.8bn last year, is the most exposed to risks in overseas markets as it depends on exports for 37 per cent of sales.

This compares with 22 per cent for Kobe Steel and 32 per cent for Sumitomo Metal Industries.

There are several forces driving the profits warnings. Japan's steel demand plunged to its lowest levels in nearly 30 years in the first half of 1998 as the recession there and elsewhere in Asia forced carmakers and construction companies to reduce their orders. Analysts estimate crude steel production of between 90m and 93m tonnes left the industry with nearly 20 per cent unused capacity – namely, empty facilities and excess workers.

The plot thickened in the second half of last year, with steelmakers squeezed between a strengthening yen and the threat of anti-dumping charges after September.

"Once our buyers in the US heard about the charges they stopped ordering," said a manager at a Japanese steel company.



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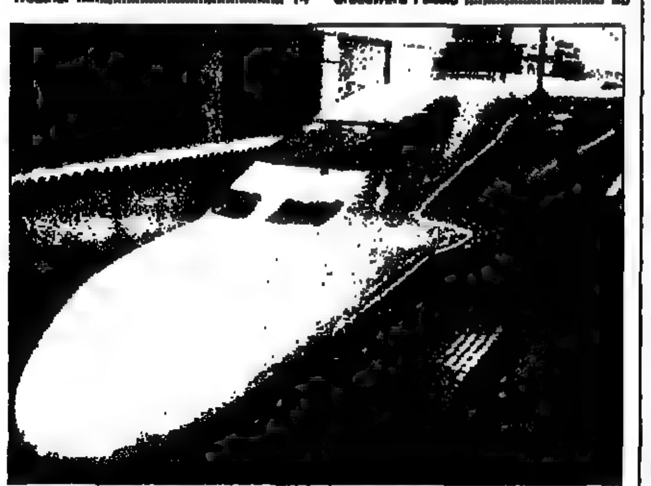

Japan's new bullet train, which goes into service next month, is slower than its predecessor, but is 20 per cent cheaper to build. Page 6 AP

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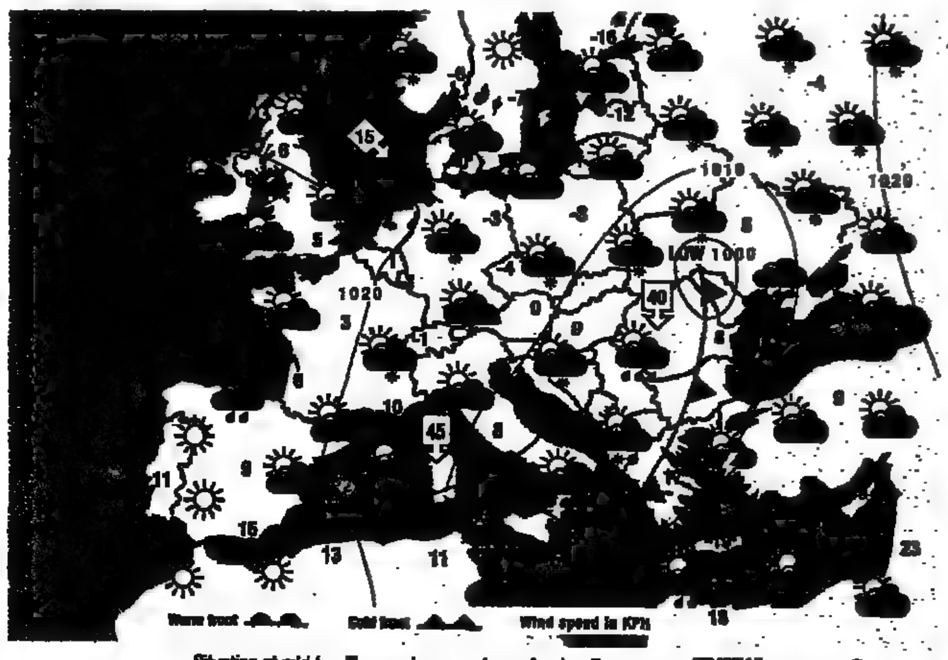
FT WEATHER GUIDE

Europe today
Much of Scandinavia will be dry with sunny spells but western coasts of Norway will have snow showers. Eastern and central Europe will have snow showers and sunny spells. The cold weather will extend into the Mediterranean with Italy turning colder. Central and eastern parts of the Mediterranean will be showery but the far east and far west will be mainly dry with sunny spells.

Five-day forecast
Central and eastern parts of the Mediterranean will remain showery with localised thundery downpours but it will also stay very warm in the far east of the Mediterranean. The bulk of Spain and Portugal will stay dry with sunny spells. Scandinavia will have snow and eastern Europe will have sunny spells and snow flurries.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Cloudy	25
Accra	Fair	32
Algiers	Shower	13
Amsterdam	Fair	4
Athens	Shower	17
Atlanta	Fair	19
B. Aires	Fair	26
B.ham	Sun	4
Bangkok	Rain	32
Barcelona	Sun	13
Beijing	Sun	3
Belfast	Fair	6
Belgrade	Snow	1
Berlin	Fair	-3
Bermuda	Fair	20
Bogota	Fair	19
Bombay	Sun	30
Brussels	Fair	1
Budapest	Snow	0
C.hagen	Sun	0
Cairo	Sun	22
Caracas	Sun	26
Cardiff	Fair	6
Casablanca	Sun	16
Chicago	Rain	14
Cologne	Snow	1
Dakar	Sun	24
Dallas	Thunder	20
Delhi	Sun	25
Dubai	Sun	26
Dublin	Fair	6
Dubrovnik	Thunder	10
Edinburgh	Fair	7
Faro	Sun	14
Frankfurt	Snow	2
Geneva	Snow	-1
Gibraltar	Sun	16
Glasgow	Fair	7
Hamburg	Fair	-1
Helsinki	Fair	-16
Hong Kong	Fair	21
Honolulu	Sun	27
Istanbul	Fair	15
Jakarta	Thunder	29
Jersey	Fair	7
Johannesburg	Thunder	29
Karachi	Fair	30
Kuwait	Sun	30
L. Angeles	Sun	22
Las Palmas	Fair	20
Lima	Fair	27
Lisbon	Sun	11
London	Fair	5
Lux.bourg	Snow	-1
Lyon	Cloudy	-1
Madeira	Fair	18
Madrid	Sun	9
Majorca	Fair	12
Malta	Thunder	12
Manchester	Fair	5
Manila	Fair	31
Melbourne	Fair	31
Mexico City	Sun	25
Miami	Sun	28
Milan	Sun	7
Montreal	Cloudy	1
Moscow	Snow	-4
Munich	Cloudy	-4
Nairobi	Sun	29
Naples	Thunder	7
Nassau	Sun	28
New York	Fair	18
Nice	Sun	11
Nicosia	Fair	19
Oslo	Sun	-5
Paris	Fair	3
Perth	Sun	32
Prague	Fair	-4
Rangoon	Sun	34
Reykjavik	Rain	7
Rio	Shower	31
Rome	Hail	8
S. Frsco	Sun	15
Seoul	Sun	2
Singapore	Fair	31
Stockholm	Sun	-7
Strasbourg	Snow	-1
Sydney	Shower	28
Tangier	Sun	14
Tel Aviv	Sun	23
Tokyo	Rain	12
Toronto	Cloudy	13
Vancouver	Rain	7
Venice	Sun	8
Vienna	Snow	0
Warsaw	Fair	-4
Washington	Fair	16
Wellington	Fair	21
Winnipeg	Snow	-6
Zurich	Snow	-5

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FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Estonia Telecom sale raises $221m
Estonia has completed the sale of a 24 per cent stake in Estonia Telecom, the national telecommunications operator, raising EKr3.06bn ($221m) in the biggest international equity offering so far from the Baltic countries. Page 18

PFE arm to be merged into Universal
Seagram, the Canadian entertainment group, is to merge the non-US distribution and production interests of PolyGram Filmed Entertainment (PFE) into Universal Pictures, its Hollywood movie studio. PFE has been Europe's most active film investor during the 1990s. Page 17

NZ exporters fight to overturn ruling
The New Zealand meat industry is to step up efforts to overturn a ruling by the US Trade Commission, which upheld a complaint by US lamb producers that imports were unfairly injuring their livelihoods. Commodities, Page 26

Sale to set scene for bank shake-up

The privatisation of Crédit Lyonnais, whose final terms are soon due to be set, is expected to set the scene for the next step in the restructuring of the French banking sector. Although Jean Peyrelevade, Crédit Lyonnais chairman, (left) is opposed to an alliance with rivals such as Banque Nationale de Paris, France's third-largest bank, many still see a link-up between the two as the most likely outcome. Page 16

Warsaw soars despite zloty concerns
The Warsaw stock market has seen a 12 per cent capital gain this year, despite a downturn in the foreign exchanges for the zloty, concerns over the political situation and fears the current account deficit may top 5 per cent of GDP this year. Emerging Market Focus, Page 36

Volvo may reveal Scania deal details
Volvo's results meeting may give insight into the truckmaker's purchase of 13 per cent of rival Scania. But a takeover could be opposed because of the likely job losses in Sweden or by the EU on antitrust grounds. Page 18

Latvian oil port retains dominance
The Latvian port of Ventspils has remained the leading outlet for Russian oil in the eastern Baltic despite Russia imposing economic sanctions on Latvia and Lithuania beginning construction on an oil terminal on the border between the two Baltic states. Commodities, Page 26

Companies drag their heels on euro
The countries of central Europe conduct the lion's share of their trade with the European Union, but many companies in the region have been slow to react to the introduction of the currency. Business and the euro, Page 23

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MARKET STATISTICS

News Corp in talks with Canal Plus

Groups explore ways of pooling pay television interests

By John Gapper in London and Paul Betts in Milan

Rupert Murdoch's News Corporation and Canal Plus, the French pay television company, are exploring pooling their European pay television interests to create a dominant player in the sector.

Mr Murdoch, chairman and chief executive of News Corp, met Pierre Lescure, chairman of Canal Plus, in New York last Friday for talks on a potential combination that could transform European pay broadcasting.

The development is the latest twist in Mr Murdoch's effort to gain a footing in continental European broadcasting. Moves to break into Germany and Italy through alliances with local broadcasters have so far fallen through.

Mr Murdoch is thought to have travelled to Paris yesterday to continue talks with Canal Plus. However, one person close to the talks warned that no deal was imminent, and discussions over co-operation could easily founder.

The European Commission would take a close interest in any combination of News Corp's 40 per cent holding in British Sky Broadcasting with Canal Plus's interests in Italy, Spain, Poland and Scandinavia.

One person close to News Corp said any "non aggression pact" between the two companies would be likely to fall foul of Karel Van Miert, the European commissioner, who has tried to encourage pay television competition.

Word of News Corp's discussions with Canal Plus emerged in the Italian press yesterday, and led to speculation that News Corp was about to withdraw from its planned attempt to operate a digital pay television service in Italy.

The two sides are thought to have been brought together by an investment bank, following the purchase by Canal Plus of an indirect stake in BSkyB through Pathe, the French media group that owns 17 per cent of the UK company.

Strong political opposition to Mr Murdoch in Italy since he announced the formation of a European subsidiary to expand its pay television interests is thought to have persuaded him of the merits of a combination with Canal Plus.

This is unlikely to take the form of a full merger of Canal Plus with BSkyB because this would require an offer for the UK company. However, News Corp Europe could be combined to take in overseas ventures built up by Canal Plus.

News Corp yesterday denied it was shelving plans to acquire an 80 per cent stake in Stream, the digital television arm of Telecom Italia. Stream is the main competitor to Telepiu, the network 90 per cent controlled by Canal Plus.

However, Mrs Letizia Moratti, chairman of News Corp Europe, said its plans had been affected by the Italian government's decision to impose a 60 per cent ceiling on ownership of "Serie A" football pay television rights.

"We are reviewing our industrial plan and our project with Telecom Italia for Stream because if the soccer decree goes through, this project will no longer be possible," she said, after an Italian Senate commission hearing.

If News Corp pulls out of its original deal to acquire 80 per cent of Stream, Telecom Italia could either sell Stream to Canal Plus or it could strike a deal with TF1, the French television network controlled by the Bouygues industrial group.

Lex, Page 14

Fed-Mogul withdraws from race with TRW for Lucas

By Michael Peel

Federal-Mogul, the US braking systems manufacturer, yesterday pulled out of the race to acquire LucasVarity, the UK car components maker, leaving the way clear to an agreed £4bn ($6.56bn) cash bid by TRW of the US.

Federal-Mogul, which made an indicative £3.9bn cash-and-shares offer before TRW bid last month, said extensive due diligence showed that an improved offer would fail to pass its financial tests.

TRW's probable victory will see LucasVarity's ownership switch across the Atlantic after all. Last November Victor Rice, LVA's chief executive, failed in his attempt to move the group's domicile to the US, where he believed it would attract a higher rating.

Mr Rice, the son of an Essex chimney sweep who has chosen to live near the company's US offices in Buffalo, New York State, believed the US market was the natural home for the company. His US-based Varity Corporation merged with Lucas Industries in 1996.

TRW, which makes steering systems and spacecraft equipment, came in with a "white knight" 288p a share offer after LucasVarity rebuffed Federal-Mogul's 280p a share bid.

The prospect of a bid from Federal-Mogul ebbed as the company processed data obtained from LucasVarity documents. The decision not to proceed was reached after five days of detailed analysis.

It is understood that Federal Mogul thought the performance prospects of the two businesses were insufficient to justify a bid pitched significantly above the TRW offer.

It is thought Federal-Mogul was positive about the strategic soundness of the deal and was confident of matching the $200m of synergies envisaged by TRW. Federal-Mogul was also optimistic that it could sell LucasVarity's aerospace business for a good price.

But Federal-Mogul may have been concerned that the Lucas deal would have put too much strain on its balance sheet. It is thought that a better offer would have included more than the 50 per cent cash content of the indicative bid.

Lex, Page 14

Seeking to expand in emerging markets: Graham MacKay, group chief executive of South African Breweries

SAB plans to raise up to $328m from London listing

By John Willman in London

South African Breweries, the world's fourth largest brewing group, plans to raise between £150m and £200m ($246m-$328m) in a placing of new shares when it lists on the London Stock Exchange next month.

SAB is the latest in a flood of South African companies moving to London. They are seeking to escape the constraints of exchange controls at home and to gain access to global capital markets to fund growth outside South Africa where most have reached market saturation. The cash SAB is raising will be used to finance the group's switch to London and to fund expansion in emerging markets.

SAB, which controls more than 98 per cent of the South African beer market with brands such as Castle and Lion, has operations in 18 countries, including China, Russia, Poland and Ghana.

The shares are expected to enter the FTSE 100 index, joining Billiton, the South African mining group.

Other South African groups that have announced their intention to seek a London listing include Anglo American, another mining group, and Old Mutual, the country's largest life assurance group.

SAB yesterday began a roadshow to sell shares with the publication of its pathfinder prospectus. Full dealing in the shares is due on March 10.

The pathfinder revealed that a further 4.95 per cent of the shares will be on offer as two of the larger shareholders sell their directly owned stakes in the group, which has a market capitalisation of £3.6bn. They are Johnnies Industrial Corporation and Anglo American.

These two companies, together with Liberty Life, control another 28.5 per cent of SAB shares through their stakes in Beverage and Consumer Industry Holdings (Bevcon). Bevcon has been trying to sell its stake in South African Breweries, but has failed to find a buyer and has now taken it off the market.

The pathfinder says Bevcon has signed a lock-up agreement that will prevent the sale of its SAB shares until January 8 2000 to provide stability after their London debut. However, Bevcon is free to sell to another brewer or a financial buyer from May 1.

The new shares will initially raise £150m by way of a bookbuilding exercise. But the managers have an option to issue further new shares up to £50m.

Robert Fleming, Cazenove and Goldman Sachs are joint global co-ordinators and lead managers. Flemings and Cazenove are joint sponsors and financial advisers to SAB and Goldman Sachs is advising Johnnic and Anglo American.

Crossing the world from townships to the FTSE, Page 21

ABRUPT DEPARTURE CONTINUES GROUP SHAKE-UP

SB's head of research leaves

By David Pilling, Pharmaceuticals Correspondent

SmithKline Beecham's head of research and development abruptly left the company yesterday, continuing a week of shake-up at the Anglo-American drugs group.

Dr David U'Prichard will be replaced by Tadataka Yamada, 53, the Japanese head of the healthcare services division that SB sold for $3bn this week.

His departure comes a day after Jan Leschly, chief executive, gave an upbeat presentation of the drugs pipeline, which he said would deliver earnings growth of 15 per cent-plus over the next three years. Yesterday's news may cast doubt over those optimistic forecasts.

The surprise departure also follows this week's announcement of a radical restructuring of the company's manufacturing network. The overhaul, which will cost £750m to implement, will result in the loss of 3,000 jobs.

In a brusque statement, the company would say only that Dr U'Prichard, who has been at SB less than 18 months, had resigned to pursue other interests. Dr U'Prichard, who was lured from UK rival Zeneca in 1997, was unavailable for comment yesterday.

Dr Yamada, who oversaw SB's ill-fated foray into the US pharmacy benefit business, joined the SB board as a non-executive director in 1994. Praised by the company for his strong management skills, it is understood he has been given the task of pulling together the diverse threads of SB's research network more effectively. The company has important research facilities in Philadelphia and Harlow, Essex.

His appointment is likely to strengthen further the hand of George Poste, the former head of research who is now chief scientific and technology officer.

There was speculation that Dr U'Prichard might have quarrelled with Dr Poste over the latter's strong commitment to using genetic data as a source for novel drug targets.

Even though SB spending on R&D is equivalent to 18 per cent of sales, its annual budget of $1.5bn is considerably below that of big US companies such as Pfizer. Analysts said Dr U'Prichard might have felt that ambitious earnings targets would squeeze R&D funding.

Dr Yamada will be in charge of steering a host of products through clinical trials to replace important drugs going off patent over the next few years. New products include a broad spectrum antibiotic, an osteoporosis drug that will compete with Eli Lilly's Evista and a cancer drug that SB bought from a Coulter Pharmaceutical, a US biotechnology company.

Metro shares fall 7% after stagnant Christmas sales

German retailer faces tough challenge from Wal-Mart

By Tony Barber in Frankfurt

Metro, the German group leading the battle against US competition for Europe's retail market, suffered a 7 per cent fall in its share price yesterday after reporting stagnant Christmas sales in its cash-and-carry business outside Germany.

The Cologne-based company – the world's second biggest retailer in terms of sales after Wal-Mart Stores of the US – reported a 4.8 per cent increase in 1998 turnover after adjustment for acquisitions and disposals made last year. But investment analysts at two banks, Deutsche Bank and Sal. Oppenheim, responded by lowering their recommendations to buy Metro stock.

Retail analysts said the results suggested that Metro would face a challenge in fighting off Wal-Mart's accelerating surge into Europe and in developing its own business in Germany. Wal-Mart, famous for its aggressive discounting strategy, is already making an impact in Germany, having bought 74 hypermarkets from the Spar Handels group last December to add to the 21-store Wertkauf chain it acquired in 1997.

Klaus Wiegandt, Metro's chief executive, anticipated Wal-Mart's European expansion as well as the euro's arrival by launching a far-reaching reorganisation last year. He concluded that the European retail market was poised for "dramatic changes that will separate the wheat from the chaff".

Mr Wiegandt shed Metro's Kaufhalle chain of department stores as well as 26 Kaufhof department store sites and various non-core operations to amass a pan-European cash-and-carry network, now the company's main focus.

Metro's purchase of the European business of the Dutch cash-and-carry group Makro, whose operations stretch from the UK to Poland, helped lift Metro's total cash-and-carry sales last year from DM10.18bn (€5.2bn, $5.8bn) to DM37.75bn. This, in turn, meant Metro was able to report a 61.3 per cent rise in group sales on an unadjusted basis to DM91.7bn. Group income from ordinary activities rose last year by 20.4 per cent to DM1.12bn.

However, the company painted a mixed picture of Christmas business, reporting a rise in sales of consumer electronics, a fall in sales at its retail food business and a sharp decline in sales at its home improvement centres.

Metro's European cash-and-carry business outside Germany suffered in the last three months of 1998 from muted demand for non-food items. In France, sales were substantially affected by a 12-day strike in November.

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INDIAN PRIVATISATION TELECOMMUNICATIONS CARRIER FIGURE REFLECTS CONCERNS ON POLICY

VSNL set to be priced low at $9

By Krishna Guha in Bombay and Khozem Merchant in London

India's latest privatisation issue is expected to be priced today at a knock-down price of about $9 a share, well below official expectations, reflecting investor concern about government policy.

The sale of about 10m shares in VSNL, India's international telecommunications carrier, through a parallel offering of 20m global depositary receipts, is likely to raise about Rs7.7bn ($181m). This would leave the government still Rs42.3bn short of its target of Rs50bn revenues from asset sales by March 31.

The government's acceptance of a low price was explained by the urgent need to show it is meeting its disinvestment target before the budget is presented at the end of this month. Getting VSNL away would send a positive signal to investors nervous over the government's inconsistent policy on privatisation.

The privatisation receipts would be a useful filip following the disclosure earlier this week that the country's fiscal balance has worsened in the past year, making the government's target of 5.6 per cent of gross domestic product for 1998-99 look unattainable.

State-owned financial institutions, which have been active buyers of recent privatisations, kept a low profile. Analysts took this to indicate they did not want to be seen to be financing the privatisation programme under government pressure.

Foreign investors subscribed at low prices. "It is incredibly cheap," said one fund manager. Investment bankers close to the issue said it was entirely market driven. However, the deal had been plagued by uncertainties over policy and the status of VSNL's monopoly on international services, due to expire in 2004.

The timing of the sale was far from ideal. Investors were asked to subscribe two weeks before India's government announced its new telecom policy.

Last month, the government raised new fears about the autonomy of public-sector companies by pushing ahead with plans to create a cross-shareholdings network in the energy sector. There are also concerns about the company itself, which does not have a chairman, and failed to implement plans to build a regional telecoms hub in a joint venture with British Telecom. Like many telecoms companies it is potentially exposed to the fall in call settlement rates.

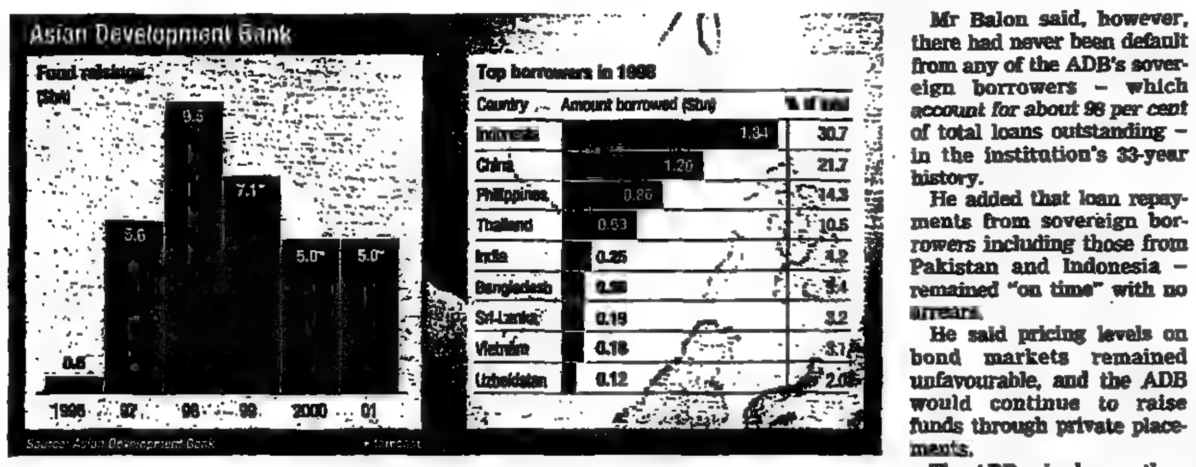
VSNL, which raised about $550m via its first GDR in 1997, recently lost its monopoly on internet service provision after lobbying from Indias software industry.

ADB to cut international fund-raising

By Tony Tassell in Manila

The Asian Development Bank plans to scale back fund-raising on international markets in 1999 after a sharp increase last year amid the region's economic crisis.

The ADB, one of the biggest debt issuers in the region, plans to raise $7.1bn this year compared with a record $9.6bn in 1998. Of this, about $6bn is likely to be raised through the issue of long-term bonds and the remainder through bridge finance.



Peter Balon, ADB assistant treasurer, said the institution's funding requirement was expected to continue declining further to around $5bn in 2000 and 2001, given projected lending programmes.

At his first press conference yesterday, Tadao Chino, incoming president, said the ADB planned to raise lending in 1999 to between $6.5bn and $7.5bn from $5.96bn in 1998.

Mr Balon said the ADB would consider making a benchmark bond issue before the end of May after the institution's 1998 results were released on March 18 and subsequent due diligence by ratings agencies and presentations to investors were carried out.

Mr Balon said, however, the ADB would be prepared to wait if current unfavourable pricing levels for the institution's debt prevailed. He said spreads on ADB bonds had widened due to a negative perception of the bank's exposure to Asia in the wake of the region's economic crisis.

Secondary market debt yields on five-year ADB bonds were currently trading at about 55 to 60 basis points above equivalent US Treasury issues. This was about 20 to 25 basis points wider than yields on comparable World Bank issues.

"Hopefully, pricing differential levels will return to more reasonable levels once investors become more aware of our true credit quality," he said.

Unofficial estimates put the development bank's reserves-to-loan ratio at 27.3 per cent at the end of 1998 – a level more than twice that of the World Bank, according to Mr Balon.

He also pointed to a December report by Moody's Investor Service that said the ADB at the end of 1997 still had among the highest risk asset coverage ratios among the multilateral development banks despite a sharp deterioration of the quality of its loan book in the wake of the Asian crisis.

This ratio measures the "useable equity" of the bank including callable capital from Aaa and Aa-rated member countries against loans and equity investments in countries rated below investment grade.

Moody's noted the ADB's risk asset coverage had tumbled sharply from 801.4 per cent in 1996 but remained high at 280.8 per cent by the end of 1997. The ADB's cushion against potential shock is also illustrated by the fact that callable capital from countries rated Aaa or Aa represented 78 per cent of total borrowings at the end of 1997.

Both Moody's and Standard & Poor's also recently reaffirmed the ADB's Aaa rating with stable outlooks.

The ADB still faces concerns about the concentration of its loan portfolio in a region hit hard by crisis, particularly problematic countries such as Indonesia and Pakistan.

At the end of 1998, Indonesia accounted for about 23 per cent of loans outstanding and Pakistan about 11 per cent.

Mr Balon said, however, there had never been default from any of the ADB's sovereign borrowers – which account for about 98 per cent of total loans outstanding – in the institution's 33-year history.

He added that loan repayments from sovereign borrowers including those from Pakistan and Indonesia – remained "on time" with no arrears.

He said pricing levels on bond markets remained unfavourable, and the ADB would continue to raise funds through private placements.

The ADB raised more than $2bn through this route last year, often at below London interbank offered rates.

In the year ahead, the ADB is planning to tap Asian investors in a bid to further strengthen the regional debt markets.

On the cards are further issues in Taiwanese and Hong Kong dollars and debut offering in Singapore dollars.

This latter move follows the decision by the Singapore government in August 1998 to allow international borrowers to sell local bonds.

A euro-denominated offering would also be under consideration, but Mr Balon said this option was currently "not efficient" given the level of supply of euro bond issues.

Nissan to sell stake in Ikeda Bussan

By Alexandra Harney in Tokyo

Nissan Motor, Japan's second largest carmaker, said yesterday it had agreed to sell a 20 per cent stake in Ikeda Bussan, an affiliated car seat manufacturer, for Y2bn ($17.5m).

The sale marks the latest restructuring move in the carmaker's effort to reduce its Y4,300bn interest-bearing debt burden.

Last month, Nissan sold part of its stake in Kinugawa Rubber, a rubber car parts company, to Toyo Tyre & Rubber, the troubled tyremaker associated with Toyota Motor.

The group has also sold a majority stake in several other subsidiaries, including a promotional materials company and an advertising group, since last autumn.

The sale follows the announcement of additional restructuring reforms last week, amid growing speculation that the company's liabilities were weighing on negotiations with Daimler-Chrysler on a possible equity alliance.

Nissan said its sale of 18.3m shares in Ikeda Bussan this March would lower its stake in the company from 57.9 to 38 per cent. However, it would still be the group's largest shareholder, ahead of Asahi Bank with 4.9 per cent of total shares.

Peter Boardman, analyst at HSBC Securities in Tokyo, said the sale indicated Nissan was accelerating its restructuring plans, because the carmaker would take a Y5bn loss. "It just shows how much they need the money," he said.

Nissan, which is part of the troubled Fuyo industrial group, is expecting net losses of Y30bn this year on sales of Y6,400bn. This compares with losses of Y14bn on turnover of Y6,564.6bn last year.

The announcement was made after the close of trading. Shares in the group jumped 4.6 per cent, or Y18, to Y407.

NEWS DIGEST

BANKING

Commonwealth plans A$650m share buy-back

Commonwealth Bank of Australia, one of the country's top four banks, yesterday announced a A$650m (US$421m) share buy-back and strong first-half profits.

CBA said net profit jumped 18 per cent to A$713m for the six months to December, exceeding market expectations of about A$680m. Analysts said the bank's underlying profits and strong growth in areas of non-interest income had prompted them to upgrade forecasts for the second half.

CBA said it would complete an off-market share buy-back in March, following previous buy-backs in 1996 and 1997 amounting to A$1.65bn. It will consider a further on-market buy-back later, as a way to manage its high Tier One capital ratio of 8.1 per cent. CBA's cost-to-income ratio, an important measure of expense management, fell from 56.94 per cent in the half-year to June 1998 to 54.18 per cent. **Gwen Robinson, Sydney.**

Share issue aims for Bt20bn

Bangkok Bank, Thailand's largest commercial bank, said yesterday it plans to raise between Bt10bn and Bt20bn ($269m-$538m) in new capital via an issue of preferred shares linked with interest-bearing debentures.

Bangkok Bank will become the third big Thai bank to raise capital under the Stapled Limited Interest Preferred Shares scheme, which helps financial institutions raise new equity that is costly but does not dilute current shareholders. The bank said all of the new capital would be set aside as provisions for non-performing loans. The bank said its classified lending, for which it has to provision, stand at 48 per cent of all loans. **Ted Bardacke, Bangkok**

PAPER INDUSTRY

Takasaki takes over Sanko

Takasaki Paper, a medium-scale manufacturer of jute liners, announced yesterday an all-paper takeover of Sanko Paper for Y11bn ($96m), providing further evidence of consolidation among struggling Japanese companies. Mitsui, the Japanese trading company, owns 24.5 per cent of Takasaki Paper.

Sanko Paper makes corrugated mediums and paperboard, and is 20 per cent owned by Oji Paper. The combined entity will be the seventh largest paper and paperboard maker in terms of output, with a domestic market share of 3.3 per cent. **Alexandra Nusbaum, Tokyo**

CREDIT CARDS

Court calls for Citibank probe

A Taiwan district court yesterday called on prosecutors to investigate Citibank over the interest rates it charges on credit card debts. An official at the US bank dismissed reports that it charged annual interest of up to 56 per cent on the debts of customers who failed to make agreed payments, and said the bank had not broken the law or strayed from standard market practice.

Newspapers said the judge's action came after Citibank's Taiwan consumer banking manager failed to respond to more than 30 court summonses related to customer complaints.

Citibank, the biggest foreign issuer of credit cards in Taiwan, said there had been a misunderstanding and it planned to co-operate fully with the court.
Mure Dickie, Taipei

MINING

WMC in phosphate project

WMC, one of Australia's largest diversified mining groups and the world's fourth-largest nickel producer, is further diversifying its resources base with a di-ammonium phosphate project that will make it the country's sole producer of high-analysis fertiliser. The A$700m (US$453m) project in Queensland, to mine and process phosphate rock, highlights efforts by Australian mining companies to respond to tougher markets.

WMC said earlier that net profit for the year to December plunged 43 per cent to A$169m on weaker commodities prices, currency hedging losses and project cost overruns. Asset sales, including its stake in the Goldfields gas pipeline, contributed nearly A$160m and helped offset abnormal losses of A$169m on write-downs of nickel assets. **Gwen Robinson**

Roche loses case

By John Burton in Seoul

Cheil Jedang, South Korea's biggest food and pharmaceutical group, yesterday said a Seoul court had ruled in its favour over a 10-year patent dispute with Roche, the Swiss pharmaceutical company.

"This is a landmark decision since few Korean companies have won patent infringement cases. But it's also rare for such cases to be heard in Korea since foreign companies have doubts about the impartiality of the Korean judicial system," said Jeff Kahng, an analyst at ING Barings in Seoul.

Roche filed a suit in 1990 claiming that Cheil Jedang had marketed a drug, Alphaferon, that was similar to one produced by Roche. Both used the anti-cancer agent Interferon.

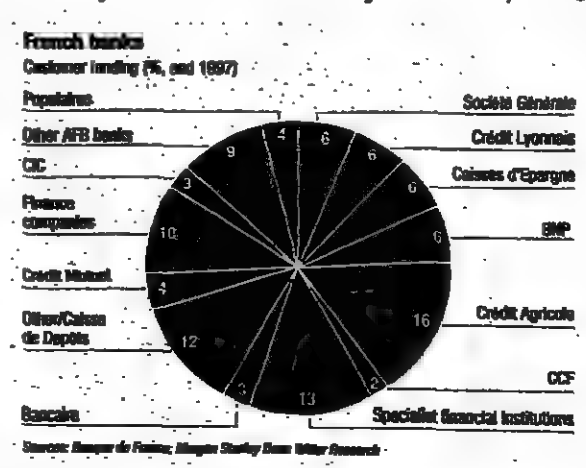
The Korean supreme court decided that Cheil Jedang did not infringe Roche's patent for its drug, Roferon-a, since manufacturing details of the drug had been published before Roche registered its patent. It added that interferon was not developed by Roche.

Analysts said the decision would not have a significant effect for Cheil Jedang since its pharmaceutical business accounted for only 9 per cent of total sales.

Mutuals demand respect in bank upheaval

The next move in France may be from an unlikely direction, writes Samer Iskandar

Ever since Société Générale revealed that it was taking over rival Paribas earlier this month, all eyes have been on France's fragmented banking sector for the next big move.



But observers may not have focused their gaze sufficiently on the mutually owned banks which, as a force to be reckoned with, are sure to affect dramatically the scale and form of any rationalisation.

The privatisation of Crédit Lyonnais, whose final terms are due to be set in coming weeks, is expected to set the scene for the next step in the sector's restructuring.

With half a dozen banks and insurance companies bidding for sizeable equity stakes, the initial stages of the Crédit Lyonnais sell-off should give a strong hint of which institutions are most likely to be involved in France's next large transaction.

Crédit Agricole, France's largest bank, yesterday said it was "examining" Crédit Lyonnais in the context of its privatisation. Any interest from it in Crédit Lyonnais could undermine the efforts of Banque Nationale de Paris, France's third largest bank, to get involved. BNP is believed to have stepped up pressure on the government to grant it a leading role in the privatisation. Although Jean Peyrelevade, Crédit Lyonnais chairman, is opposed to an alliance with rivals such as BNP, many still saw a link-up between the two as the most likely outcome after the SG Paribas operation.

Crédit Agricole is France's largest bank in terms of customers' deposits until the SG Paribas merger is completed. It also has a war-chest of more than FFr45bn (€6.87bn, US$7.7bn) from accumulated profits.

"We have FFr140bn of funds," Lucien Douroux, its chief executive, yesterday told Les Echos, the French business daily. "About a third of this amount could theoretically be available for new operations."

Another factor favouring Crédit Agricole from the viewpoint of the socialist-led government is its mutualist structure. Mutuals, which have no shareholders demanding dividends, are under little pressure to improve their competitiveness. As a result, they are widely perceived as less likely than their stock exchange listed rivals to resort to aggressive cost-cutting measures.

Speculation has also intensified that Caisse D'Epargne, the state-owned savings bank being converted into a mutual, was the most likely candidate to acquire Crédit Foncier, the mortgage bank earmarked for privatisation. Last year, a sale of Crédit Foncier to a consortium led by GMAC of the US fell through after strong opposition from trade unions.

French commercial bankers regularly complain that mutually owned banks distort competition in the banking sector by offering services at reduced prices that commercial banks cannot match. Bankers are also frustrated by what they claim to be preferential treatment of mutuals by the government.

With the fight against unemployment topping the government's priorities, it is tempting for Dominique Strauss-Kahn, finance minister, to turn to the mutuals.

In this context, a link-up between Crédit Agricole and Crédit Lyonnais would be less politically sensitive than, say, an alliance with the more-aggressive BNP, which could result in large-scale closures in the overlapping branch networks.

Other suitors for Crédit Lyonnais are gradually dropping out. Several foreign banks approached by the French government are said to have declined to participate, because they were not allowed to covet a controlling stake. Even SocGen and Paribas, which reaffirmed their intention to participate in the privatisation immediately after announcing their merger, backtracked yesterday. André Lévy-Lang, who is to chair the combined entity, said it was "premature" to assert that SG Paribas wanted to be part of Crédit Lyonnais's founding group of long-term shareholders. These investors are expected to take more than 5 per cent each in the privatised bank.

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...m share buy-back

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...in phosphate project

... in bank upheaval

... Samuel Iskandar

PULP AND PAPER NEWLY FORMED NORDIC GROUP PLANS FURTHER DISPOSAL OF NON-CORE ASSETS

StoraEnso result tumbles on merger costs

By Nicholas George in Stockholm

StoraEnso, one of the world's largest pulp and paper groups, yesterday reported a sharp fall in pre-tax profits after taking restructuring charges of €455m ($514m) in the fourth quarter to cover merger-related costs.

The group, formed last year by the $8.5bn merger of Stora of Sweden and Finland's Enso, also announced plans to dispose of more non-core assets and said the merger was going "according to plan".

As part of the disposal programme, the company said yesterday it had sold the assets and operations of the Finnish specialist paper mill Tervakoski to Triernberg of Austria for €92m, and the Danish Dalum recycling mill for €28m to a group of Danish investors.

It has also appointed advisers to examine the future ownership of the Gruvon packaging paper and pulp mill complex in Sweden.

The mill employs 1,200 people and has a yearly output of around 600,000 tonnes.

In the 12 months to December 31, pre-tax profits fell from €636m to €339m. Adjusted to exclude restructuring costs, pre-tax profits rose to €822m. Sales rose from €10bn to €10.5bn.

The company said demand for almost all its products had been good until the fourth quarter, when profits were adversely affected by production halts in the packaging board and pulp divisions due to slowing demand.

Jukka Härmälä, chief executive, said the production stops had cost around €60m. Although there would be further production stops this year, they would, "definitely not be to the same extent", he said.

The company forecast that while volumes for all products were expected to remain fairly good throughout 1999, "prices are likely to be on the declining side".

Lars Kjellberg, forestry analyst at CSFB in London, supported StoraEnso's decision to cut production in order to defend prices.

"It means taking the short-term pain for a longer-term gain," he said. The disposal of non-core assets was evidence the company was already acting on its new strategy, and this was "clearly positive".

Earnings per share fell from €0.54 to €0.25, with a proposed dividend up from €0.33 to €0.35. In Helsinki the most commonly traded StoraEnso R share fell €0.40 to €8.20.

Togetherness is watchword for Europe's truckmakers

Volvo's purchase of a 13% stake in Scania has fed expectations of broader consolidation ahead, writes **Haig Simonian**

The modest people who manage Europe's truck industry have gained a taste of the racier world of cars in the past few months, as takeover talk has gathered pace. At Volvo's results meeting in Stockholm today, the truckmakers may have another chance to lord it over car colleagues as journalists probe the Swedish group's purchase of 13 per cent of Scania last month.

"If Volvo wins Scania, it will create a Europe of two major companies – Mercedes with 23 per cent share and Volvo-Scania with 31 per cent, and four smaller companies each with 10-12 per cent. The smaller companies would be pressed to respond," says John Lawson, motor industry analyst at Salomon Smith Barney in London.

Shares in Scania have soared this year on Volvo's move. But the speculative froth has also boosted other truckmakers on expectations of broader changes ahead.

- Volvo's plan to buy Scania may succeed, but it is by no means certain. Investor, Scania's parent company, has talked to at least two other suitors. That means Volvo may have to fight, even with the $6.45bn it will receive after last month's decision to sell its car activities to Ford.
- Volvo and its bankers have said Scania is not their only option. This may be just a negotiating ploy, as the alternatives are limited. But "there is a plan B", says a banker.
- Doubts about a Volvo-Scania deal have been reinforced because they are not an obvious fit. The two overlap in products and geography, the notable exceptions being that Volvo manufactures in the US, and Scania does not make medium-weight vehicles.

The fact both Swedish groups could be considering other options has reinforced expectations of change in trucks. Even before Volvo's move, predators were stalking the sector. Ferdinand Piëch, Volkswagen chairman, said last year he wanted to expand into heavy trucks. Paccar, the big US truckmaker controlled by the secretive Pigott family, has already bought Daf of the Netherlands and Leyland Trucks in the UK, sweeping up two of Europe's few remaining independent brands.

Expectations of consolidation have been strengthened by fears a downturn may not be far off. In the past two years, heavy truck sales in the US and Europe have been above forecasts because of low interest rates and good economic growth. While this year's predictions point to only limited declines, the industry is notoriously volatile, and the next downturn could prompt consolidation in earnest.

Such factors have led analysts to focus on the companies leading the latest restructuring drive. Many argue Volvo would do better spending its cash on a truckmaker in the US, the world's biggest truck market, where its share hovers at around 12 per cent. But choice is limited: Freightliner and its new brand, Sterling, belong to DaimlerChrysler; the Pigotts, who control Kenworth and Peterbilt through Paccar, still look more like buyers than sellers. Paccar's net profits jumped by 21 per cent to almost $417m last year, vindicating the family's acquisition strategy.

By contrast, Mack Trucks, which is about Volvo's size in the US, would be ideal. Mack belongs to Renault, and many analysts have questioned the French group's long-term commitment to trucks, whether in Europe or the US.

Renault, however, insists it is sticking.

That only leaves Navistar, a big industrial group which builds diesel engines and medium-weight trucks as well as heavier Class 8 vehicles. Navistar has been clouded by labour unrest and mixed signals about its heavy truck plans, making it an unlikely takeover candidate. But even its shares have risen lately.

Scania, meanwhile, might be better served linking with a complementary south European truckmaker than with Volvo, say analysts. Fiat's Iveco commercial vehicles division would fit well. Iveco is a force in light- and medium-weight vehicles, but has still not entirely overcome market doubts about its heavier products. Its trucks sell strongly in Italy and Spain, but less so elsewhere.

Filling the product and geographical gap was one reason Fiat was prepared to pay at least $14bn for all of Volvo – not just cars. That deal has now been scuppered by Volvo's preference for Ford, although Fiat is still believed to harbour designs on the rump Volvo.

If Fiat's north European strategy fails, its obvious partner is Renault. The two companies already work together in engines and components.

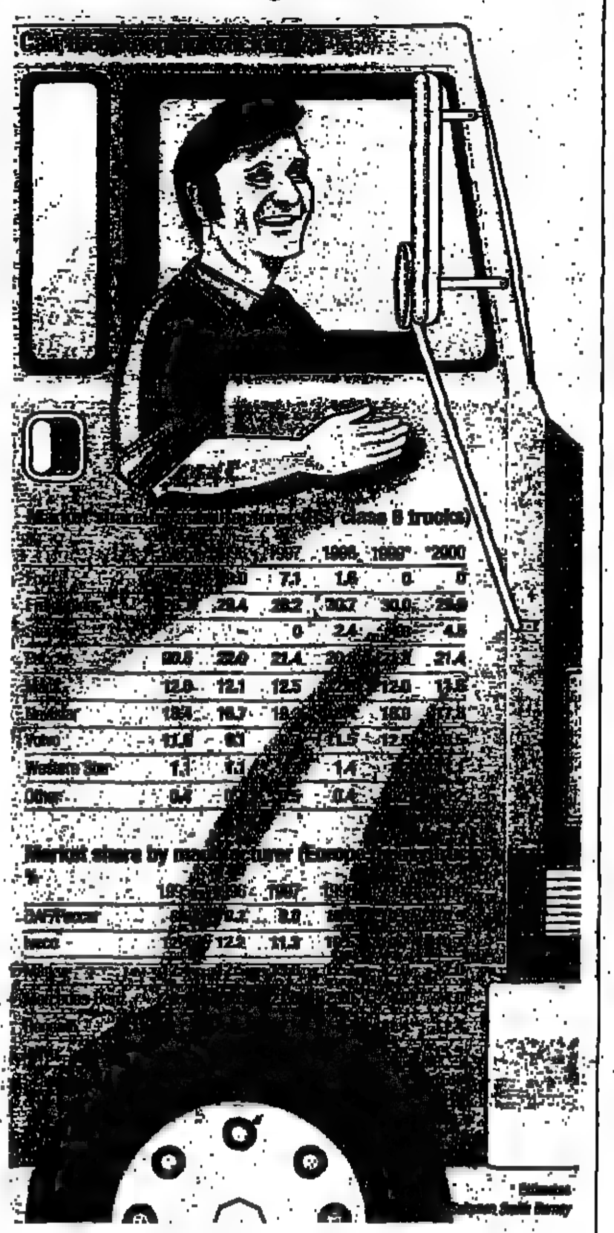
Last year, they put their bus businesses into a joint venture. For many observers, that deal was the first step to a broader alliance in trucks, although this has been denied by both sides.

The joker in the pack is MAN Nutzfahrzeuge, the German truckmaker that is part of the MAN group. MAN would give either Fiat or Renault a much bigger presence in Germany, Europe's largest truck market.

The trouble is, MAN's parent company says it is not for sale. Even if it were, analysts say any deal would need the tacit approval of DaimlerChrysler. MAN Nutzfahrzeuge has strong business links with the German-US group, to which it supplies many components.

Even if a sale were on the cards, VW would be the obvious buyer. The two companies worked closely in the past building lightweight trucks, before going their separate ways.

It is hard, even in a truck industry growing progressively more international, to imagine the redoubtable Mr Piëch letting a prize like MAN slip through his fingers if the chance ever arose.



LVMH in talks on taking stake in Armani

By Alice Rawsthorn

LVMH, the French luxury goods group which recently amassed a 34.4 per cent shareholding in Gucci, is in talks on a possible investment in Giorgio Armani, another of Italy's best-known fashion houses.

Armani has been restructuring its finances for more than a year with a view to going public or bringing in a larger group as an investor. Speculation has been rife about an alliance with LVMH since Bernard Arnault, the French group's chairman, made a surprise appearance at the Armani men's wear show in Milan last month.

Giuseppe Brusone, Armani general manager, affirmed yesterday that there had been discussions with LVMH. "Everyone saw Mr Arnault at Armani's fashion show," he said. "I confirm LVMH's interest in our group."

It is understood that the two companies have been in talks for some time. Relations are thought to be amicable, but they have yet to finalise terms for a deal.

Mr Brusone stressed yesterday that Armani had also received "many offers from Italian and foreign groups".

He added that Armani, which achieved turnover of L1,550bn (€800m, $904m) last year with L680bn of liquidity, had yet to rule out the possibility of going public.

An alliance with LVMH would settle the uncertainty over Armani's future when Giorgio Armani, its 63-year-old founder and chief designer, eventually retires. The company would also be able to tap into LVMH's wide distribution network, including its DFS duty-free shops.

For LVMH, the alliance would offer an opportunity to exert control over one of the world's best known and consistently successful fashion brands. LVMH already owns the Louis Vuitton and Givenchy luxury labels, and Mr Arnault's companies also control the Christian Dior fashion house.

Mr Arnault signalled his intention of expanding his interests last month, when he became an aggressive buyer of Gucci shares. LVMH is expected to mount a bid for control of Gucci, but is loath to do so without the agreement of Tom Ford, its chief designer, and Domenico De Sole, president. Mr Arnault is believed to have met Mr De Sole to discuss the situation.

Estonia completes IPO

By Matej Vipotnik in Tallinn

Estonia yesterday completed the sale of a 24 per cent stake in Estonia Telecom, the national telecommunications operator, raising EKr3.06bn ($221m) in the biggest international equity offering from the Baltic countries so far.

Heavy demand allowed the issue to be priced at EKr85 a share, at the top end of the indicative range and valuing the company at EKr11.7bn, making it one of the biggest in the region. The shares are to be listed on the Tallinn stock exchange and in London in the form of Global Depositary Receipts.

International investors were given 30.9m of the 36m shares on offer. Matthew Westerman, head of equity capital markets at ABN Amro Rothschild, joint global co-ordinator with Nomura International, said the issue was 15 times subscribed, with most demand from UK and US buyers.

Some 8,200 domestic retail investors also applied for shares, according to the communications ministry.

Bankers said the issue reflected continued interest in emerging-market privatisations.

The IPO completes a complex restructuring of the company that will see Telia of Sweden and Sonera of Finland, its two strategic partners, own a combined 49 per cent stake. The state retains just over 27 per cent. The global co-ordinators earned fees of 2.25 per cent of the value of the deal while Union Bank of Estonia, which led the domestic consortium, will receive a fee of 0.5 per cent.

- Shareholders in Equant, the international telecoms company, will sell 42m shares in a secondary offering, up from the 35m originally proposed. An additional 6.3m will be available to meet over-allotment for the global offering, which is due to be priced today.

Investor set to change portfolio strategy

By Tim Burt in Stockholm

Investor, the main investment vehicle for Sweden's Wallenberg business empire, is today expected to announce a strategic shift in its portfolio towards more international and liquid stocks as part of a broad restructuring.

The company, which holds controlling stakes in companies accounting for more than 40 per cent of the Swedish market, is also likely to unveil a management reshuffle involving the promotion of Marcus Wallenberg, deputy president, to chief executive.

Mr Wallenberg, the nephew of family patriarch Peter Wallenberg, will succeed Claes Dahlbäck, Investor chief executive since 1978.

The new chief executive is expected to set a goal for Investor to beat the Stockholm market by about 3 per cent a year, while also increasing the international profile of its portfolio.

The move follows a sharp decline in Investor's earnings last year. The company, announcing full-year figures today, will announce that its total return to shareholders was minus 1 per cent last year, compared with 13 per cent growth in the Stockholm general index.

In 1997, by comparison, Investor's total return increased 32 per cent, while the general index rose 28 per cent.

That has exposed the group to criticism that it is too exposed to mature or thin-margin manufacturers such as SKF, the world's largest bearings manufacturer, or sectors facing intense international competition.

Investor will defend its record by pointing out that it faced similar pressures before – particularly in 1987 and 1991, when Swedish manufacturers were also hit by falling export orders – but still managed to outperform the market comfortably over the longer term.

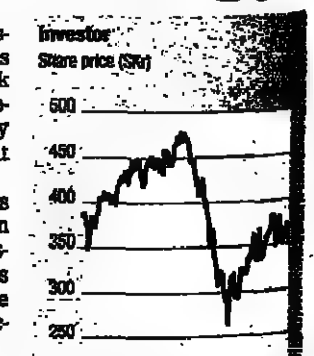
Mr Wallenberg is likely to say that Investor will push ahead with restructuring at lagging companies, ultimately withdrawing from sectors that promise little or no growth.

He will face intense questioning on Investor's plans for Scania, the heavy truck manufacturer in which automotive rival Volvo recently acquired a near-13 per cent stake.

Investor, which controls 45 per cent of Scania, is in talks with Volvo about a possible deal, but the two sides are not thought to have agreed a valuation or structure for any transaction.

Investor will also confirm that it is considering other strategic options for Scania.

The company has already signalled its willingness to embark on bold strategic moves – leaving it with smaller stakes in larger, more liquid international companies – through mergers last year such as Stora, the Investor-controlled paper group, with Finnish rival Enso, and the $35bn partnership between drugs group Astra and Zeneca of the UK.



NEWS DIGEST

POLAND

Elektrim shares rise as outsider is appointed chief

Barbara Lundberg, the new chief executive of Elektrim, Poland's largest listed industrial conglomerate, yesterday promised to make the company "transparent to investors" as its shares rose 10 per cent on news of her landmark appointment – the first time an outsider has been appointed to a key Polish company. Ms Lundberg, a 46-year-old US national, has been brought in to head the company, which has a market value of about $800m, after former chief Andrzej Skowronski was forced to resign last December when Elektrim failed to disclose details of agreements which significantly lowered the value of its 34 per cent stake in Era GSM, a mobile telephone operator.

The appointment gives Ms Lundberg the opportunity to improve relations with foreign fund managers, who have become increasingly restive with the quality of management in listed Polish companies. "Investors need to feel they're being told the whole story," Ms Lundberg said yesterday. She pledged to focus Elektrim on its core businesses of telecoms, power generating equipment and cables, improve productivity and dispose of under performing assets. **Christopher Bobinski, Warsaw**

BUSINESS SERVICES

Buhrmann upbeat on earnings

Buhrmann, the Dutch business services and distribution group known formerly as KNP BT, said yesterday it is aiming for 10 per cent annual growth in earnings per share for the next three years. This follows a restructuring in which the company shed its paper making and packaging businesses and returned capital to shareholders.

Net profits from operations rose just 1.5 per cent overall last year to Fl 330m (€150m, $170m) but on a per-share basis were sharply higher at Fl 3.25 compared with Fl 2.67. Buhrmann is increasing its dividend 20 per cent to €0.60. **Gordon Cramb, Amsterdam**

ENERGY

Gas Natural ahead 15%

Gas Natural, the gas company affiliated to Spain's Repsol oil group, offset a sharp dip in supplies to electricity generators last year to raise consolidated net profits by 15 per cent to Pta58.37bn (€351m, $396m). The Barcelona-based company said the increase from Pta50.63bn the previous year was based on a 20 per cent expansion of its household and commercial client base in Spain and Latin America. Its performance has been helped by Spanish economic growth and extra demand caused by a colder than expected winter.

Gas distribution subsidiaries in Mexico, Brazil, Colombia and Argentina accounted for almost half the group's total clients – 2.8m out of 5.8m. Overall net turnover rose 4 per cent during the year to Pta446.44bn, on a 12 per cent volume increase in gas sales. Volume sales in Latin America climbed 32 per cent, compared with 7 per cent on the domestic Spanish market. **David White, Madrid**

FLOOR COVERINGS

Downturn at Tarkett Sommer

Tarkett Sommer, the German floor coverings group, reported lower 1998 sales and profits due to the Russian financial crisis, and warned of a continued negative trend in the first half of 1999. The company had warned at the time of its nine-month results in November that it had been hard-hit by the Russian crisis, which broke in the third quarter of last year.

For 1998, Tarkett Sommer said sales fell 2 per cent to DM2.67bn (€1.47bn, $1.62bn) and earnings before interest, tax and amortisation (ebita) was likely to be DM165m-DM170m, against DM177m in 1997. The group will report detailed results in March. **Reuters, Frankfurt**

GREECE

Setback for Ionian Bank

The indicative offers received for a 51 per cent stake in Greece's Ionian Bank may be no higher than the single bid received last summer in an auction that was later cancelled. A second setback could be a blow to other Greek privatisations, analysts said yesterday. Ionian shares fell yesterday for the third consecutive day, ending Dr200 lower at Dr16,100, giving the bank a market value of Dr450.8bn ($1.58bn).

J.P. Morgan, the US investment bank advising state-controlled Commercial Bank of Greece on the share sale, has confirmed only that bids were received on Monday and that a second stage would begin next week. The fall in Ionian shares has been prompted by press reports that three bids, all from domestic banking groups, fell 35 to 40 per cent short of the market price. **Clay Harris**

MOTORING

Porsche sees sales surge

Porsche, the German sports car group, believes it can expand sales beyond forecast levels without damaging its brand, Wendelin Wiedeking, chief executive, said yesterday. He believed sales could comfortably exceed the 60,000 units a year Porsche hopes to achieve once its new sports utility vehicle, being developed with Volkswagen, becomes available in 2002. He said the group could raise sales and move into other niches. Output is expected to reach about 40,000 units in the current financial year, up from 38,000 last year. **Haig Simonian**

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WALL STREET FEARS THAT SOME DEALS COMING TO MARKET ARE OF POOR QUALITY

Internet IPO performances shake stocks

By John Labate and Tracy Corrigan in New York

Initial public offerings for internet stocks, one of Wall Street's hottest sectors, have taken a sudden turn towards uncertainty after the poor performance of several deals floated last week and amid concerns that some of the deals being prepared for the market are of poor quality.

Two deals, Pacific Internet, the Singapore-based internet service provider, and Media.Poppe Tyson, a web-based marketing firm, have plunged in value since making strong debuts last Friday.

"I think people got a bit spooked by Pacific Internet," said Randall Roth, analyst at Renaissance Capital's IPO fund. "The stock opened at $88 last week and [Tuesday] it was at $29. I think a lot of people probably lost their shirts." Yesterday, Pacific Internet rebounded slightly, up $⅞ to $30⅞.

Among the factors weighing on the sector is the recent fall in price of Lycos, the internet portal company that on Tuesday announced that it was to be acquired by USA Networks, the media company, prompting concerns among investors that the buyer is paying too small a premium.

Furthermore, some of the internet sector's leading names, including Amazon.com and Yahoo! have fallen considerably from recent highs.

The change in sentiment raises questions for the large number of deals expected to come to market in coming months.

Some 113 IPOs, worth an estimated $5bn, have been registered with the Securities and Exchange Commission, according to Securities Data Company. Some of the upcoming flotations, including Gabelli Asset Management and Pipeline.com, are considered high quality.

However, analysts warned that retail investors' expectations that every technology IPO will go through the roof are excessive, particularly given the higher volume of deals and increasingly mixed bag of companies being offered.

"A lot of supply is being thrown into the market, especially in technology and especially in internet technology," said Frank Lallas, senior analyst at Gomez Advisors, an internet research firm.

In particular he warned of companies that are going public with "no real assets, no real revenues and no real customers" and said that investors should begin to question some of the business plans put forward.

He highlighted a recent IPO filing by Onemain.com, which plans to buy and consolidate a group of internet service providers in smaller US markets.

The deal, set for next month, is to be underwritten by BT Alex Brown and Wit Capital, an internet investment bank. Another analyst said that this and some other IPOs being offered to retail investors are "inappropriate".

He said that for a number of recent filings "there's a real concern about the viability of the business plan in the long term".

Citing the poor aftermarket performance for Pacific Internet, he said "it's a big 'buyer beware' flag".

Other recent IPOs have also had sharp pull backs, including Perot Systems, the information technology firm headed by Ross Perot, which has fallen from $68 to $44⅛.

Terms of Lycos deal disappoint investors

By Louise Kehoe in San Francisco and William Lewis in New York

Shares of Lycos, the internet portal company, continued to plunge yesterday as investors responded to the deal, announced on Tuesday, to merge the company with USA Networks, the television and online media group run by Barry Diller.

Yesterday, Lycos shares were off 5 per cent at 89\frac{1}{16}$, following a 26 per cent fall on Tuesday. In the past two days Lycos's market value has fallen from more than $5bn to $3.6bn.

Some investors were said to be undecided about whether to accept the deal, which requires approval from Lycos shareholders.

People close to both companies conceded the deal had so far been ineffectually communicated to Lycos shareholders, mainly retail investors. The companies were yesterday said to be formulating plans to give investors details of projected earnings growth targets in an attempt to stem the stock price drop.

"There is no doubt that the market has misread this one, but we have to deal with that and are keen to bring out to investors how beneficial this deal is going to be for them," one person close to the deal said.

Amid concerns that a further big drop in Lycos's stock price could trigger a bid for part of Lycos from NBC, the broadcast company owned by General Electric, or other media groups, executives from Lycos and USA Network were said to have intensified talks with Lycos shareholders.

These efforts have been complicated by the large private investor holding of Lycos stock. Institutional investors hold only about 19m of the 50m Lycos shares outstanding. However, CMG Information Services, an internet investment group that holds a 20 per cent stake, said it supported the deal.

Other investors were disappointed by the lack of a clear-cut premium. Even on Lycos's own website, shareholders were complaining yesterday. One called the deal "a joke," adding that the company had "betrayed its faithful shareholders."

Mr Diller said the combined business would be worth about $22bn, with "all the necessary ingredients for electronic information and commerce ... [in] one centrally and aggressively managed enterprise."

But analysts had reservations. "While the kinds of users who frequent Lycos's properties such as Wired, HotBot and Suck.com may buy a lot of event tickets from Ticketmaster, we are not sure this same demographic will avail themselves of the trinkets on Home Shopping Network," said analysts at Zona Research, an internet market research group.

Ford may woo Reitzle

By Nikki Tait in Chicago

Jacques Nasser, chief executive of Ford, yesterday declined to rule out the possibility that Wolfgang Reitzle, former head of marketing and product development at BMW, the German luxury carmaker, might join the US company.

However, Mr Nasser emphasised that Ford "would not want to jeopardise [Mr Reitzle's] position at this point".

Mr Reitzle, together with Bernd Pischetsrieder, BMW chairman, were ousted from the German company last week after a boardroom dispute triggered partly by problems at Rover, the UK-based carmaker bought by BMW in 1994.

Mr Reitzle was effectively the number two executive at the German group, and credited with masterminding some of its most successful models.

Mr Nasser yesterday described Mr Reitzle as a good friend and "tremendous executive", but said he believed there were issues that Mr Reitzle still needed to work out with BMW, including compensation. It is believed that Mr Reitzle's contract may include a "non-compete" clause.

Speaking ahead of the Chicago Auto Show, Mr Nasser doubted that BMW would be an easy acquisition target following the boardroom upheavals. "I wouldn't throw gasoline on the fire of acquisition," he said. "Clearly, they [BMW] are going through a very difficult process ... [but] I think they've made clear they want to stay independent – and I believe them."

Before its $6.5bn acquisition of Volvo's car division last month, Ford had been frequently mentioned as one of the potential parties interested in BMW.

Mr Nasser yesterday offered his own interpretation of the trend towards consolidation in the automotive industry, suggesting that it resulted from rapid advances in technology, which were pushing down costs, and the rise of the global economy. "This industry is changing dramatically, and none of us are probably fully prepared," he said.

FILM INDUSTRY PRODUCTION MERGER WITH UNIVERSAL CONFIRMED

New role for PFE

By Alice Rawsthorn in London

Seagram, the Canadian entertainment group, yesterday confirmed it was to merge the non-US distribution and production interests of PolyGram Filmed Entertainment (PFE) into Universal Pictures, its Hollywood movie studio.

Chris McGurk, Universal's president, described the merger as "a great strategic opportunity" to expand the studio's activities outside North America in film production, distribution and acquisition.

The future of PFE has been in doubt since May when Seagram mounted an $11bn bid for the PolyGram group. Its fate has important implications for the European film industry, because PFE has been Europe's most active film investor during the 1990s by backing a string of hits including *Four Weddings And A Funeral*, *Bean* and *Elizabeth*, which is nominated as Best Picture in next month's Academy Awards.

Seagram initially hoped to sell PFE intact, but has had to sell its assets piecemeal. Universal began lobbying late last year to absorb its non-US production and distribution interests. It may also absorb Gramercy, one of PFE's US distribution networks. Propaganda, a successful US production company, is expected to be sold, but PFE's remaining US assets may be closed.

After the merger, PFE's non-US arm will continue to be run from London by Stewart Till, international president under PolyGram, and will be renamed using the Universal brand. It includes film distribution companies throughout Europe and Asia, as well as UK production concerns, such as Working Title and Dirty Hands, run by director Alan Parker.

Crowning glory: the movie Elizabeth is from the PFE stable

Mr Till hopes to expand the business under Universal's ownership, and expects to increase its staff from 500 to more than 550.

A Latin American film distribution operation may open next year, and there is a long-term possibility of the old PFE network distributing all of Universal's pictures outside North America if the European Commission carries out its threat to disband United International Pictures, its existing distribution venture.

Universal expects the old PFE to remain an active investor in European production, according to Mr McGurk, and to be equally aggressive in acquisitions. PFE's past acquisitions include such successes as *The Usual Suspects*, *Trainspotting* and *Lock, Stock & Two Smoking Barrels*.

Universal is still in negotiations with Tim Bevan and Eric Fellner, co-chairmen of Working Title and co-producers of *Notting Hill*, the hotly anticipated *Four Weddings* follow-up, and the Oscar-nominated *Elizabeth*. Their personal contracts with PFE expire shortly, and Mr McGurk hopes soon to conclude new deals with them.

He also plans to expand PFE's successful video distribution operation. Universal is now reviewing the future of its involvement with CIC, a non-US video distribution venture run with Paramount, a rival US studio.

NEWS DIGEST

CREDIT CARDS

Citigroup executives quit Visa board over branding

Two senior executives of Citigroup, the world's largest bank, have quit the board of Visa, the world's largest credit card association, in what appeared to be an escalation of a dispute over how the cards should be branded. However, it remained unclear yesterday whether the bank would strike a new exclusive deal with MasterCard, Visa's biggest rival.

John Reed, Citigroup co-chief executive, was one of the executives to resign. He had made a sharp attack on Visa last month, expressing amazement that banks were prepared to issue cards through a "communal brand name".

The event could have immense implications for Visa and MasterCard, the two bank associations which dominate the world's payment card market. Citigroup is the largest single member of both.

Both Citigroup and MasterCard declined to comment on a report in the Wall Street Journal that the bank would now cease issuing new Visa cards and move all its business to MasterCard. It is understood that discussions on this basis were already proceeding, although there had not yet been an agreement. Under the terms of such a deal, MasterCard might be asked to move its logo to the back of the card, and according to the report it would also cut the price it charged to Citigroup.

Visa continued to defend its approach, saying it was pursuing a "win-win" strategy, seeking to grow both the Visa brand and the brands of its individual members. It said: "We have broad support among our boards that our brand should be managed in a way that ensures its long-term vibrancy; even as some member banks seek to build their own brand identities." **John Authers, New York**

MEXICAN TELECOMS

Telmex injunction dismissed

A Mexico City judge has swept aside an injunction by Telmex, the telecommunications group, to suspend the introduction of "calling party pays", which shifts the cost of dialling cellular phones to the caller. The ruling clears the way for Mexico's federal telecoms commission, Cofetel, to recommence the implementation of the system, stalled since Telmex launched its injunction January 23.

Telmex was deciding yesterday whether to appeal the decision.

Mexico's largest publicly traded company is protesting an interconnection fee of 1.80 pesos (18 US cents) a minute that it would have to pay cellular phone companies under the new regime. Also still to be resolved is a legal ruling on the constitutionality of calling party pays, expected in the coming weeks, which will decide the ultimate fate of the system. Cofetel officials say they are confident, however, that a precedent has been set for a decision in their favour. **Andrea Mandel-Campbell, Mexico City**

NICKEL

Inco slides to fourth-quarter loss

Inco, the Canadian nickel producer, concluded a disastrous year by reporting a fourth-quarter loss of US$13m, or 13 cents a share, despite restructuring efforts that slashed the company's production costs. The results brought annual losses for Inco, North America's largest nickel company, to $78m compared with net earnings of $75m in 1997.

The company said yesterday it would extend its planned summer shutdowns in Ontario and Manitoba, resulting in expected nickel production being reduced by 15m lbs to 408m lbs in 1999.

But Inco did not take a write-down on its Voisey's Bay deposit, as some analysts had been anticipating. The company acquired the huge, low-cost deposit in Labrador for C$4.3bn in 1996, but the provincial government has refused to issue mining leases unless Inco agreed to build new smelting or refining facilities in the region.

Inco has been battered by falling nickel prices, which in December reached their lowest level since March 1987. The company's realised nickel price for the fourth quarter was down 31 per cent from the same period in 1997.

Despite the continued losses, Inco's fourth-quarter results were slightly better than analysts' expectations, and the stock rose 10 cents to C$17.10 in mid-day trading. **Edward Alden, Toronto**

Brazil regulator probes purchase by J.C. Penney

By John Barham in São Paulo

Brazil's securities regulator announced yesterday it was opening investigations into the controversial sale last December of a local department store chain to J.C. Penney of the US.

The decision by the CVM is a victory for a small but increasingly vocal movement agitating for approved rights for minority shareholders, as Brazil's equity markets become more sophisticated and attract more long-term foreign investors.

The CVM said it took action following complaints from minority investors in Lojas Renner, a fast-growing family-controlled group, who said J.C. Penney was buying the company on terms that damaged non-core shareholders.

Leonardo Brunet, a CVM director, said: "We are not making any accusations but there is evidence of unfair treatment [of minorities], so we are investigating the responsibilities of the managers of J.C. Penney, Lojas Renner and [CSFB-owned] Banco Garantia."

The investment bank advised J.C. Penney on the transaction.

Mr Brunet said the regulator had negotiated improved terms for minorities, but still felt an investigation was warranted because it appeared that J.C. Penney gave favoured treatment to two large minority shareholders. He said Lojas Renner might also have violated its own rules on repurchasing company stock.

The regulator is further investigating a complex transaction in 1997, in which Brazilian minority investors in a locally listed subsidiary of Italy's Cragnotti complained they were forced to indirectly finance the Italian parent company on unfavourable terms.

The CVM is investigating allegations that Cragnotti used $380m, partly raised from minority investors in Bom Bril, a listed Brazilian household cleaning products company, to finance acquisition of a group company in Italy.

Analysts say the peculiar equity structure of Brazilian companies lies at the heart of these disputes. Under Brazilian company law, which protects the interests of family-owned companies, owners can issue two non-voting shares for every ordinary or voting share. This means investors can exercise control by holding as little as 17.5 per cent of a company's equity.

Foreign companies acquiring local listed companies have paid large premiums for these controlling stakes but offered much lower prices to the holders of non-voting preferred stock.

The CVM also announced yesterday new rules to improve transparency and prevent abuse of holders of preferred stock in takeovers.

EntreMed shares plunge

By Victoria Griffith in Boston

Shares in EntreMed, the US biotechnology company, plunged more than 45 per cent in early New York trading yesterday after Bristol-Myers Squibb said it was ending research support for EntreMed's cancer therapy.

The small Maryland-based biotechnology company was thrust into the limelight last May, when press reports hailed its cancer drug, angiostatin, as one of the most promising new treatments. Dr Judah Folkman, the drug's inventor, had used it to eliminate tumours in mice by cutting off the tumours' blood supply.

The resultant worldwide publicity saw EntreMed's share price soar to nearly $85. However, Dr Folkman tried to downplay the drug's potential, pointing out that it had yet to be tested in humans. Investor enthusiasm began to wane, and the shares stabilised in the mid $30s.

Later, analysts began to doubt that the protein could be manufactured in sufficient quantities for commercialisation, and on Tuesday – just ahead of Bristol Myers' announcement – EntreMed closed at $24¼. Yesterday morning they tumbled $11½ to $13.

EntreMed yesterday blamed Bristol-Myers' inferior protein-manufacturing capability and said it planned to continue its own research. "Angiostatin is a very complex molecule," said Joanna Horovin, EntreMed's senior vice-president of commercial development. "It requires a lot of expertise to reproduce."

However, according to Bristol-Myers, production of the protein was just part of the problem. "Our biggest concern was the poor performance of the batches we did have," said Rob Kramer, vice-president for oncology drug discovery. "It's not fair to say it was our inexpertise; when we assessed the angiostatin [EntreMed] had produced, we also felt this drug was not ready for clinical trials."

Mr Kramer said Bristol-Myers simply decided to focus on more promising candidates. He believes Dr Folkman's basic research may be invaluable in the development of future cancer treatments.

P&U turnround under way

By Tracy Corrigan in New York

Pharmacia & Upjohn, the US-based pharmaceuticals company, yesterday offered further evidence that its promised turnround is under way, reporting a 29 per cent increase in net earnings for the fourth quarter to $235m before extraordinary items.

Including those items, net earnings for the quarter totalled $137m, compared with a loss of $128m a year ago. Net sales of $1.8bn were up 9 per cent.

Alex Zisson, pharmaceuticals analyst at Hambrecht & Quist, said the "good quality earnings" showed that P&U "is still on the upswing of a turnround". He said the consolidation of P&U's operations in New Jersey had cut costs and improved efficiency.

Prescription pharmaceutical sales growth of 14 per cent worldwide was driven by a 21 per cent increase in the US.

Prescription sales in Japan increased 30 per cent, partly because of the retrieval of Genotropin, a growth hormone which is the company's leading product, from a licensee. Genotropin sales reached $120m in the fourth quarter, a 78 per cent increase.

Among its newer products, sales of Detrol/Detrusitol, a urinary incontinence drug, recorded sales of $70m in the fourth quarter and is capturing more than 50 per cent of new prescriptions in the US.

Analysts said that the launch of Detrol in the US in April had been more successful than expected.

Xalatan, P&U's glaucoma treatment, recorded sales of $104m, up 88 per cent over the previous year.

Mariola Haggar, pharmaceuticals analyst at Deutsche Bank Securities, said P&U's pipeline of forthcoming drugs was "much better than it used to be but not as full as most investors would like, in order to have complete confidence that strong double-digit earnings growth is sustainable in the long run."

She added that she believed P&U would beat consensus forecasts for 1999 of earnings of $1.80 a share.

Crossing the world from the township shebeens to the FTSE

South African Breweries is going courting in the City of London; *John Willman* investigates its strategy for expansion

It is more than 5,000 miles from the shebeens of South Africa's black townships to the panelled boardrooms of the City of London.

South African Breweries, the world's fourth largest brewer, is about to make that journey – relocating from a country where it commands more than 98 per cent of the beer market to one where it sells only a few thousand cases of its flagship Castle lager.

Since the fall of apartheid, the brewer has expanded rapidly outside South Africa into emerging markets in eastern Europe, Asia and the rest of sub-Saharan Africa. However, its ability to grow internationally is constrained by exchange controls that limit its use of the strong cash flow from South African brewing to fund overseas expansion.

"We must acquire access to the global capital market to further growth in our international brewing business," says Graham Mackay, managing director. "The Johannesburg Stock Exchange doesn't have the depth or liquidity."

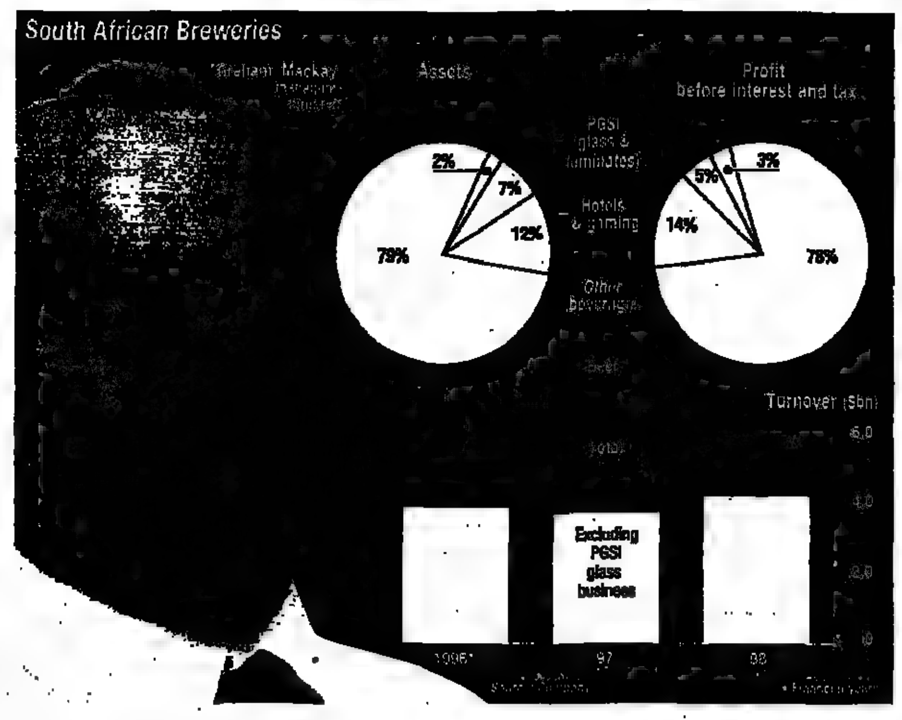
SAB is not about to pull out of South Africa, where it also owns the country's largest soft drinks bottler and its largest hotels and gaming business. And it believes the core brewing business has headroom for further growth – despite its commanding market share.

"More than 45 per cent of the population is under 19 and yet to enter their beer-drinking years," says Mr Mackay. "Urbanisation continues to move people from subsistence to the cash economy which gives them choice – and they choose beer."

Similar prospects beckon from the north, where SAB has long been involved in countries such as Botswana and Swaziland. With the fall of apartheid, it has been able to range further afield to Uganda, Kenya and Ghana.

The biggest move came in 1994, however, when the group jumped continents by entering the post-communist world of eastern Europe with the acquisition of Dreher of Hungary. It has since added brewing interests in Romania, Slovakia, Russia and Poland, where it is the country's second largest brewer after Heineken.

It has also ventured into Asia, with stakes in four Chinese breweries through a joint venture, and is negotiating to buy a fifth from Foster's, the Australian brewing group. "Unlike most other brewers, we make money in China," says Mr Mackay.



One of the main purposes of a London listing is to fund further acquisitions in emerging markets, particularly in Poland where SAB holds only a minority stake in its operation. But the group also wants the freedom to be an active participant in the consolidation of the global brewing industry, where the 10 largest brewers control little more than a third of the market.

"We must participate in that process on equal terms with other international brewers or we will languish – or even become an acquisition target," says Mr Mackay.

Whether this approach will persuade UK investors remains to be seen. Analysts are concerned that while SAB has an impressive array of assets in emerging markets, growth may be slow.

Margins in the group's international business are 13.1 per cent, compared with 22.2 per cent in the domestic market. Further acquisitions in other emerging markets are unlikely to produce big cost savings.

The group remains dependent on South Africa for more than two-thirds of its turnover and profit.

The weakness of the rand will make it hard to report growth in dollars – SAB's new accounting currency.

Provided SAB makes it into the FTSE 100, demand from index-tracking funds looks likely to soak up the shares on offer. But further shares could soon be on the market, with Anglo American, Johnnic and Liberty Life – which control some 40 per cent of the company's shares – all having declared their intention to sell.

Johnnic and Anglo are taking the opportunity of the London listing to place their directly held shares, which account for just under 5 per cent of the equity. But a much larger tranche – 28.5 per cent – is up for sale from Bevcon, a company controlled by the three.

Goldman Sachs, the investment bank, has so far found no buyer and the Bevcon stake has been temporarily taken off the market under a lock-up agreement negotiated to ensure stability after SAB's London debut. But buyers may be deterred from a company which is still dependent on South Africa for so much of its turnover and profit.

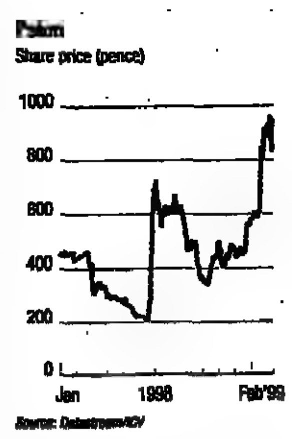
"Any non-South African company buying a stake would have a lot of complexities to worry about," says Mr Mackay.

But the failure to find a buyer for a stake in a company with such an attractive spread of assets is revealing, says one London analyst: "If none of the other brewers on the planet want to buy the Bevcon stake, it suggests they are sceptical about its prospects."

COMMENT

Psion

The last time Psion issued a profits warning, its shares shot up thanks to news of its Symbian joint venture with mobile phone giants Nokia, Motorola and Ericsson. Yesterday there was no such palliative. But hopes for Symbian still limited the damage: the shares fell only 12 per cent even though 1999 profit forecasts were halved to a mere £8m. So the scene is set for this year to be forgotten as the Dacom business – subject of the warning – goes backwards, handheld computers go sideways and Symbian loses money. For those who care about such prosaic things as a 1999 price/earnings ratio, Psion's is about 110.



That sky-high rating is increasingly dependent on blue sky technology, which will employ Psion's EPOC operating system in the next generation of smart mobile phones. While Psion has impressive partners, the risks include betting against Microsoft transferring its dominance to the wireless world.

UK interest rates

The trend in UK interest rates still looks down – *pace* yesterday's comments from Mervyn King, the Bank of England's deputy governor, that there is no plan to cut them. There may, indeed, be no plan; but there certainly seems to be a predisposition among some members of the Bank's monetary policy committee.

One straw in the wind is the Bank's changed view of the labour market. Whereas it spent much of last year fretting that average earnings growth would accelerate, it now talks about a turning point. With the economy stagnant, that would hardly be surprising.

Another straw is the news that some committee members think inflation is likely to undershoot the government's 2½ per cent target. Two reasons were given: stronger productivity growth and weaker world prices. If it is really true that the UK's underlying productivity has improved the consequences could be far-reaching. It would mean Britain could enjoy higher growth without taking risks with inflation. It would also mean sterling is not as overvalued as people suspect. Investors might even start talking about a UK productivity miracle, as they do in the US. There are, of course, *caveats* – not least concern that creeping regulation will undermine progress on productivity.

Psion shares fall on Dacom sales warning

By Paul Taylor

Shares in Psion fell nearly 12 per cent yesterday after the UK-based handheld computer and mobile data communications group issued a profits warning because of a threat to one of its main markets.

The shares closed 112½p lower at 835p after Psion said Psion Dacom, its data communications division, was likely to be adversely affected by moves to build modem communications devices into portable PCs. The devices enable messages to be transmitted over telecoms networks without the need for extra hardware.

As interest grows in mobile data communications and the 'convergence' of computing and communications, PC manufacturers have begun to accelerate plans to build modems into their machines, catching Psion off guard and undermining demand for the plug-in PC Card modems that Psion Dacom makes.

Psion had expected portable PC makers to begin 'embedding' modems into their machines in the fourth quarter this year with volume shipments beginning in 2000.

However, the relative stability of modem technology coupled with the growing interest in mobile data communications – particularly internet e-mail while on the move – has encouraged them to bring forward their plans. As a result, the first mobile PCs featuring fast modems built on to their main 'motherboards' are expected to begin appearing within the next few months.

Psion Dacom has been pursuing a longer-term strategy of broadening its product range towards higher-margin, multi-function PC cards providing capable of handling fast ISDN, local area network Ethernet and GSM wireless communications. However, the group noted that most of the unit's growth last year came from sales of its higher volume PC card modem products.

"Psion Dacom's revenue for 1999 will therefore be severely affected and have a significant impact on Psion profits for the current year", the company said. For the first half of 1998, the unit's sales increased by 79 per cent to £24.7m while volumes more than doubled to 130,000.

Before the profits warning analysts had expected Psion to report pre-tax profits of between £10.5m ($17.2m) and £11.2m ($18.4m) for 1998, increasing to £12.3m-£14m this year. Psion is due to announce its 1998 results early next month and said the results would be in line with market expectations.

Psion faces growing competition in the handheld PC market from rival machines like the 3Com Palm and pocket PCs built around Microsoft's Windows CE operating system.

BSkyB lifted by digital uptake

By John Gapper

Shares in British Sky Broadcasting, the media group, jumped over 14 per cent in London yesterday as it confirmed it had attracted 120,000 new pay television subscribers to its Sky Digital service in the four months following its launch.

BSkyB also unveiled a marketing alliance with America Online, the dominant US internet provider, and established a new target of gaining 1m subscribers to Sky Digital in the first year of the 140-channel service.

Shares rose on optimism that it was winning the battle for subscribers with rival On Digital, and on its plans for Open, an interactive home banking and shopping service it will launch soon. This sentiment outweighed the drop in pre-tax profit for the six months to December 31 from £128.6m to £53.2m ($87.2m) caused by higher programming and broadcasting costs from the launch of Sky Digital on October 1.

Open, jointly owned with British Telecommunications, HSBC Holdings and Matsushita, announced that it had signed deals with Dixons and Argos, the high-street electrical retailers, to provide services. It is negotiating deals with other retailers and banks.

Mark Booth, BSkyB chief executive, said it remained on track to hit its overall target of reaching 6m homes in the UK.

Mr Booth said BSkyB could deepen its links with internet groups further by using its customer database and programme content. Open will include a free e-mail service that will route messages via the internet.

Turnover rose from £691m to £753m, with operating expenses rising from £528.6m to £645.6m. Earnings per share dropped to 2.1p (5.2p) and the interim dividend is held at 2.75p.

The shares closed 60½p up at 474½p.

Lex, Page 14

PIC hit by pig price collapse

By Alison Smith

Profits at PIC International went through the mincer in the six months to the end of December, and the pig-breeding company warned yesterday that trading in the current half-year would also be a hard grind.

Pre-tax profits of £2.1m ($3.4m) were just 6 per cent of the comparable figure in 1997-98 of £34.8m, and were wiped out by a tax charge of £2.3m. The shares lost a further 10 per cent of their value to close at a new low of 62½p, down 7½p. Shares in PIC, created from the break-up of Dalgety last year, reached a peak of 225p last June.

Brian Baldock, chairman, said PIC had gone through "a baptism of fire" in its first months as a stand-alone company, reporting losses in all areas except the Americas as pig slaughter prices collapsed to their lowest levels for decades.

Though the company expects to see some increase in prices by its financial year end in June, it said there would be a time lag of perhaps six months before this was reflected in its customer orders.

In the meantime, it is restructuring its western Europe business so that it is closer to the profitable American model, particularly in terms of increasing so-called indirect sales, comprising groups of animals which produce a stream of royalties from their young.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
BSkyB	6 mths to Dec 31	753	(691.8)	53.2	(128.6)	2.1	(5.2)	2.75	Apr 5	2.75	-	6
JSB Software Φ	5 mths to Nov 30 ☆	1.76	(3.36)	0.373L	(0.006)	-	(-)	-	-	-	-	-
Liberty Intl	Yr to Dec 31	262.7	(248.7)	128.5	(126.3♥)	24.74†	(28.19)	10.2	May 5	9.6	19	17.6
Medeva	Yr to Dec 31	321.4	(355.4)	69.3♠	(110.9)	11.1	(21.4)	3.75	May 24	3.6	5.75	5.5
PIC Intl	6 mths to Dec 31	93.2	(2,005)	2.1♠	(34.8)	0.1L	(8.5)	nil	-	6	-	6
Vision Technology	6 mths to Dec 31*	47	(40.2)	2.5♠	(1.81)	1.32	(1.02)	0.4	May 7	0.4	-	0.9

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Jersey Phoenix	6 mths to Dec 31	129.35	(142.3)	1.84	(0.697)	6.29	(3.88)	3.05§‡	Mar 26	1.5	-	9
Scottish American	Yr to Dec 31	258.1	(232)	14.3	(12.8)	6.39	(5.74)	1.37◆	Apr 1	1.36	5.48	5.27

Earnings shown basic. Dividends shown net except §Gross throughout. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. ☆Comparatives for 12 months to May 31. *Comparatives for five months. ‡Second interim; makes 6.1p (3p) to date. ◆Special of 1p also proposed.

Medeva warns of poor 1999

By Lucy Smy

Medeva, the pharmaceuticals business, has warned that 1999 results will disappoint, because of a sharp fall in sales of a treatment for hyperactivity.

Medeva's market share for its best-selling product, methylphenidate, has been cut by generic competition from Schein, the US drugs business. Mallinckrodt, a Dutch rival, is also poised to enter the market. Both revenues and profits will be hit.

Garry Watts, finance director, said: "I had predicted a fall [in sales and profit] of 25 per cent; in fact it was 39 per cent. Next year it will be more," said Mr Watts.

The speed of the fall-off in sales took most analysts by surprise. They had been expecting full-year pre-tax profits of £70m-£80m ($115m-$130m), after last year's £110.9m. Instead, in the year to December 31, Medeva made a profit of £59.3m, after an exceptional charge on disposals and assets of £17.3m.

However, Bill Bogie, chief executive, was upbeat, pointing to sales growth from other parts of the business of 11 per cent.

He said growth would come from the company's hepatitis B vaccine and treatment, hepagene. Only 2 per cent of the world's 350m hepatitis B carriers live in the developed world.

Operating profit fell from £232.1m to £196.6m, on reduced sales of £321.4m (£355.4m).

Earnings per share dropped to 11.1p (21.4p), but the company recommended a slightly increased final dividend of 3.75p (3.6p) giving a total of 5.75p (5.5p).

The shares fell 2p to 100½p.

Field switches to second US suitor

By Virginia Marsh

Field Group, the packing company, yesterday recommended a second bid by a US suitor, as Shorewood Packaging launched an offer of 350p a share – 30p above the price agreed with Chesapeake.

Chesapeake, which announced its £194m ($318m) bid three weeks ago, responded by saying it was considering its options. The New York-based Shorewood's offer is worth £212m, and it would also assume Field's debt of about £30m.

Shares in Field, which stood at 226½p before it disclosed it was in takeover talks in mid-January, rose 12½p to 356p, down from a high of 429p two years ago.

Keith Gilchrist, Field's chief executive, said both US companies had customers and products in common with the UK group and both backed its strategy of building a European network.

"With the advantages of the two companies balanced, it came down to price and Shorewood's bid was higher," he said.

Shorewood, which is smaller than Chesapeake, has 15 plants in North America and one in China.

Last year it acquired Queens Group, a US producer of packaging for the music and multimedia sectors, with which Field had hoped to co-operate in Europe.

Field, which makes packaging mainly for the tobacco, alcoholic drinks, food and pharmaceutical industries, has a highly regarded management team but its rating suffered last year because of its exposure to Asia, and weakening consumer demand in the UK.

Shorewood made net profits of $26.3m on sales of $415m in the year to May 4 1998. It produces packaging for the computer software, cosmetics, food, music, tobacco and general consumer markets. At mid-session in New York, Shorewood shares were down 50 cents at $18⅞ while Chesapeake had lost $1 to $32⅞.

Shorewood is advised by Bear, Stearns; Field by ING Barings; and Chesapeake by DLJ.

EURO PRICES

EQUITIES

Rate questions leave Europe volatile

EUROPEAN OVERVIEW

By Vincent Boland

European stock markets ended in very mixed mood yesterday after a volatile trading session, an initial rise on Wall Street failing to inspire any significant gains.

Again, the focus was on interest rates after reports that the US was putting pressure on Japan to ease its monetary policy and allow the yen to fall.

Another factor unsettling markets was concern that the boom in technology stocks in the US might be about to come to an end. Analysts say the sector is exposed to sharp price corrections if the Federal Reserve decides to lift interest rates to tame the economy.

Alan Greenspan, chairman of the US Federal Reserve, speaks to the House of Representatives today and markets will be sensitive to any comment he might make on the internet phenomenon.

Traders said share prices were looking for a smooth landing now profit-taking has wiped out some of the year's early gains. But with German stocks still declining, other markets were content to follow, although Italian and Spanish markets closed slightly higher due to stock shortages.

The FTSE Eurotop 300 index of leading European shares ended 8.16 lower at 1,164.86, while the FTSE Eurotop 100 index fell 20.83 to 2,663.70. The FTSE Ebloc 100 index of shares in euro-zone companies closed 4.81 lower at 971.49.

European technology stocks were knocked by the worries over their US peers, and information technology and software groups ended sharply lower.

SAP shed €11 to €283 as German shares lost more heavily than others. Nokia fell €4.90 to €110.60, and Alcatel ended €3.20 lower at €92.30.

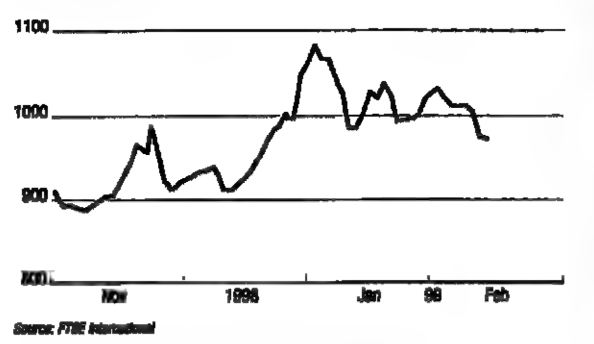
Banks were an exception on the strength of speculation that a bidding war was about to break out for Paribas, the subject of a takeover by Société Générale. The view was that Axa would counterbid for the investment bank and that another European suitor would seek a merger with SG.

Paribas gained 80 cents to €83.50 while SG was €1.70 higher at €134.70. Axa, which has agreed to buy Guardian Royal Exchange, fell €3.10 to €113.

One of the biggest decliners was the forestry sector, which fell nearly 4 per cent.

FTSE Ebloc 100

Index



Source: FTSE International

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

Feb 10

National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Euro) €
FTSE Eurotop 300	1164.86	-0.70	-8.16	2.32	0.55	1199.99
FTSE Eurotop 100	2663.70	-0.78	-20.83	2.38	1.61	855.48
FTSE Ebloc 100	971.49	-0.49	-4.81	2.13	0.39	988.51
FTSE EuroMid	1165.68	-0.99	-11.70	2.87	1.22	1209.11

OTHER INDICES

FTSE EUROTOP 300

CURRENCIES & MONEY

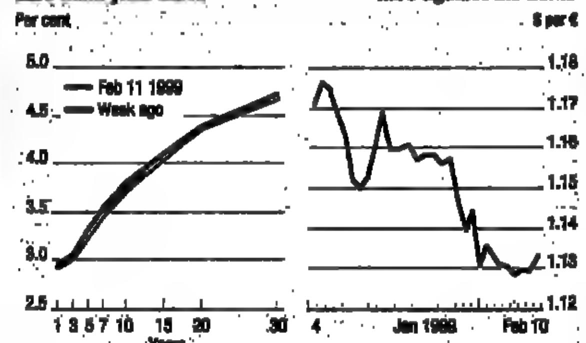
EURO SPOT FORWARD AGAINST THE EURO

BONDS

INTEREST RATE SWAPS

EURO-ZONE BONDS

Euro bond yield curve — Euro against the dollar



Source: Interactive Data/FT Information

Notes

TRADING WITH THE EURO-ZONE

Central Europe grapples with change

Companies are moving closer to doing business in euros, discover **Robert Anderson, Robert Wright** and **Chris Bobinski**

The countries of central Europe conduct the lion's share of their trade with the European Union, but for many companies in the region the introduction of the euro has yet to make a significant impact on how they do business with their western neighbours.

Several have redenominated a large part of their foreign exchange reserves into the euro, and the new European currency has become the main reference point for the region's currencies from the Polish zloty to the Czech koruna and the Croatian kuna.

Yet many companies in the region have been slow to react to the introduction of the new currency. Guido Traverso of management consultants Andersen Consulting – brought in late last year to help Komercni Banka prepare for the Euro – says many companies in the Czech Republic are not well prepared. "They are waiting, sitting on the fence," he says.

Budejovicky Budvar, the country's biggest beer exporter, says it has opened a euro account but it has not been used yet.

"We continue to be paid in D-Marks and Austrian schillings because our contracts are set up in those currencies," says Petr Jansky, economic manager.

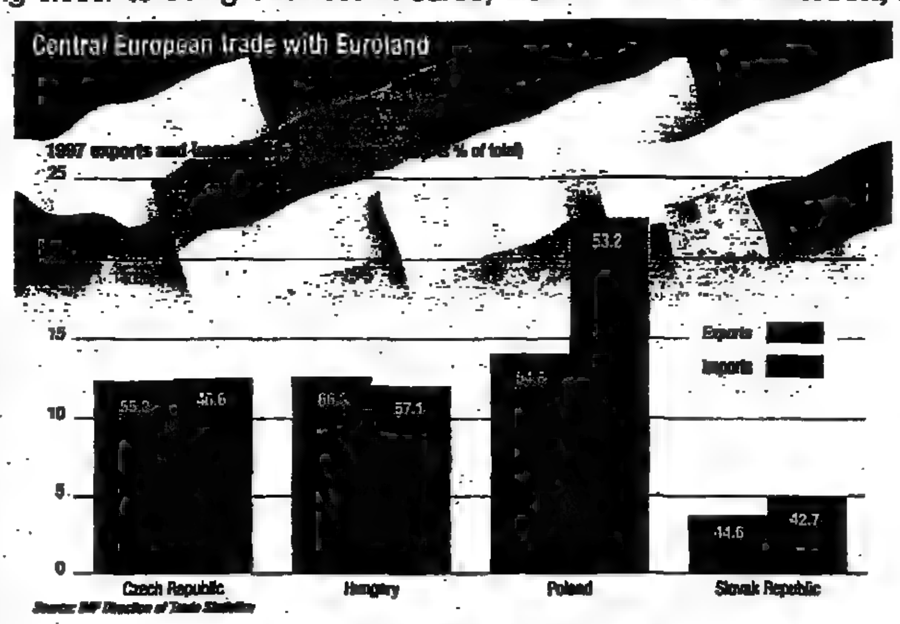
He says the birth of the euro was insufficient reason to change its contracts but when they are revised they are likely to be put into euros.

"Last autumn we changed most of our contracts but we didn't make use of the opportunity to set them up in euros," says Mr Jansky. "No one knew what might happen and we were not prepared to be guinea pigs." The company expects any impact of the euro to be mainly positive.

For big importers and exporters such as Unipetrol, the largely state-owned petrochemicals company, the euro-US dollar exchange rate will be key.

"The biggest way in which the introduction of the euro is going to influence us is in the way it will differ from the exchange rate between the mark and the dollar," says a spokesman for Unipetrol, which traditionally buys oil in dollars and sells its products in D-Marks. It expects eventually to benefit through a more stable cross-rate between the euro and the dollar.

Unipetrol's subsidiaries have already created euro accounts and it expects transfers to those accounts to start this month The company, which has a heavy investment programme, is also likely to issue bonds in euros next year and hopes for a wider market for them than before.



"There will be larger emissions under better conditions," says Richard Brabec of the company's finance department.

Increased competition for central Europe from euro-zone companies is expected. "It will speed up the restructuring of Czech enterprises," says Michal Tomasek, Komercni's EU adviser and chairman of the Association of Banks' commission on European integration.

But tougher competition within the euro-zone also has its advantages, according to Mr Traverso. "Companies could move production to countries where costs are more attractive," he says.

Laszlo Kovacs, chairman and chief executive of BorsodChem, Hungary's second largest domestic chemicals producer, believes his company has been unusually well prepared for the change to the new currency, having held discussions with all four of its banks on how to handle the changeover. All four banks – ABN Amro, Raiffeisen Unicbank, CIB and WestLB – are, like most Hungarian banks, either wholly or majority-owned by foreign companies.

According to Mr Kovacs it has probably helped that, in BorsodChem's case, these owners were all euro-zone members. BorsodChem derived 73.5 per cent of its Ft52.2bn ($242m) sales revenues in the nine months to September 30 from outside Hungary.

Of the exports, roughly 45 per cent went to western Europe. Around 35 per cent of the company's turnover will be received in euros by the end of March.

No significant problems have arisen from the introduction of the euro and any changes made have all been for the better, according to Mr Kovacs.

"Before, when we changed lira to D-Marks we had to pay commission and it took roughly two days to make the conversion. They are doing that on the day now and without any expenses," he adds.

Mr Kovacs welcomes the disappearance of the currency risk previously involved in holding euro-zone currencies which could decline against each other. There was also a reduction in currency translation costs when changing money back into Hungarian forints. Because of the size of the euro-zone, BorsodChem is changing euros in larger amounts than it had changed the old national currencies.

Mr Kovacs says the likely greater stability of the euro will also be helpful.

Ivan Szerbin, finance director of Mezogep, a Hungarian agricultural equipment and automotive components maker, majority owned by Linamar of Canada, a says the company has not experienced any problems with handling the new currency, but he believes it is too early to discount any difficulties.

Mr Szerbin says the attractions of the euro are unlikely to alter Mezogep's plans to expand outside the euro-zone. It has co-operation contracts in the US, Canada and Australia.

The Bank Handlowy, one of Poland's largest banks, says that since the new year it has seen euro-related activity on 40 per cent of its accounts. The bank automatically translated its customers' Ecu accounts into euro accounts.

Hortex, a Polish food processor and the world's largest exporter of apple concentrate, says the euro has yet to make any impact on the company's activities. Its export season starts in the spring and that is when it will begin to think about the euro, it says.

Zelmer, a household appliances producer in Rzeszow in south-east Poland sold around $30m (£18.20m) worth of vacuum cleaners to the EU in 1997 is still issuing invoices in the national currencies. Any changes, it says, will have to be sanctioned by new contracts which it will be negotiating at a trade fair in Cologne later in the year. Exports account for 40 per cent of output.

Debica, a tyre producer in south-east Poland, already has euro accounts with its local banks and issues invoices in the euro and in the local EU currency. Its financial systems have been adjusted to accommodate two currencies.

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This is the last Business and the Euro page, but coverage of this issue will continue in the World News section.

TRAVEL INDUSTRY

No magic in the real world

At Euro Disneyland outside Paris, Europe's top short-break destination and France's number one tourist attraction, payments in euros by credit cards and cheques have been accepted at hotels since the start of the year. Euro Disney plans to roll out dual pricing in euros throughout the theme park this year.

The euro is perhaps the natural currency at such a cosmopolitan attraction, but in the real world beyond the magic kingdom the euro appears to be making slow progress in winning the support of European tourists and companies which run up large travel budgets.

This is not due to tardiness by the travel industry, which has been quick off the mark in introducing euro payment facilities.

But the fact that euro notes and coins will not begin circulating until 2002 means that travellers are adjusting only slowly to the new currency.

In corporate travel, American Express says several large companies operating within the euro-zone have asked for euro-denominated cards, but the number is still tiny.

And it has so far only opened a small number of euro travel accounts with large companies.

"We think that number will grow and spread down to medium and small-sized businesses," the company says. Since January 1 American Express has received more than 2,000 transactions submitted in euros, mainly from hotel, retail, airline and leisure merchants, a number that the charge card company describes as "miniscule".

Jim Tobin, American Express spokesman, says that it is seeing only about 300-400 merchants across Europe completing euro transactions. Even if a retailer or hotel is displaying double prices, they may not have the facility to bill in euros, he says.

American Express and Thomas Cook, the UK travel and financial services group, each launched euro travellers cheques and say that sales so far have been slow.

Hotel groups have been at the forefront of the introduction of dual-billing, so that guests are presented with bills in the local currency and the equivalent in euros. International chains such as Accor and Inter-Continental each set up staff training programmes more than two years ago.

The euro rates do not just apply to hotels in Europe: Hyatt quotes rates in euros for its 182 hotels worldwide.

However, Antoine Corinthios, vice-president of operations of the Four Seasons hotel chain, says that while it quotes its rates in euros on request "I don't think the market is totally in that mode yet.

"People are counting in local currencies. It will probably be another year until the euro becomes the modus operandi".

Where hotels do find that they are breaking new ground is in the education of customers, particularly those from outside Europe. "A lot of people from the US and Japan don't understand the distinction between the euro-zone and Europe," says a spokeswoman for Inter-Continental. "Most people coming to us are new to the euro – they're looking to us to guide them. Visitors from the US and Japan are looking at their bills and saying 'what happens – what do I do with this.' Our staff therefore have been training guests."

The euro has yet to make an impact on the car hire sector, where observers had predicted that increased price transparency would tend to equalise rates. But within the euro-zone one car hire company is quoting €48.70 a day for a Volkswagen Polo in Belgium, compared with €24.60 for a comparable car in Spain. However, Tony Miles, finance and operations director of Republic Industries, which owns National and Alamo, says that until there is greater tax harmonisation across Europe, particularly on vehicles, such differences are bound to persist.

Toy cheques? No, real money since January AP

In the airline industry, analysts say that price transparency will not in itself be enough to drive down prices. At least as important, argues a study by Pricewaterhouse-Coopers, the advisory practice, is the emergence of new cheap short-haul airlines such as Easy Jet, Ryan Air and Go.

Travellers have for some time been able to circumvent air fare disparity by accessing global reservations systems such as Sabre which can automatically seek out the lowest prices. Chris Burnett, product marketing manager of Wexas, the travel club, says: "Sabre does all the calculations for us by doing all the research behind the scenes."

The big airlines such as Lufthansa and British Airways do have the facility to charge in euros and account for much of the euro transactions at American Express.

Large tour operators say that until the introduction of euro notes and coins in 2002, customers will notice little practical difference when travelling through the euro-zone, though the fixing of national currency rates should stabilise holiday prices within the Emu area.

Elizabeth Robinson

Treasuries dip as auction fails to impress

BENCHMARK BONDS

By Arkady Ostrovsky and Florian Gimbel in London and John Labate in New York

The markets were mixed yesterday with European bonds continuing their recent fightback and the Japanese bond market in limbo ahead of tomorrow's meeting at the Bank of Japan.

US Treasuries were trading lower after the auction of five-year bonds failed to impress investors. The auction was subscribed 1.8 times, lower than investors had hoped. "The auction in the US five-year bonds did not go very well," said Jeremy Hawkins at Bank of America. He said the low level of demand for the short-dated paper indicated an even greater challenge for the upcoming auction of the 10-year and 30-year bonds.

Analysts blamed the weak demand in US Treasuries on the strength of the US economy, which is showing no sign of a slowdown, and fears of inflationary pressures.

Treasuries dipped lower in advance of the second of three of the week's auctions. By early afternoon the benchmark 30-year bond had lost ½ to 98¾, sending the yield up to 5.334 per cent.

Among shorter-term issues the 10-year note was down ¼ to 98¾, yielding 4.912 per cent, and the two-year note fell $\frac{1}{16}$ to 99$\frac{13}{32}$, yielding 4.785 per cent.

UK gilts had a mixed day. The 10-year gilts underperformed other European markets, and the 10-year gilt future closed 0.17 lower at 118.53. The short end of the yield curve, however, staged a small rally in the anticipation of an interest rate cut from the Bank of England.

In its latest quarterly report, the Bank predicted that the economy was likely to stagnate in the first half of this year in spite of recent cuts in interest rates.

The Bank also said that the government's preferred measure of underlying inflation would remain near its 2.5 per cent target over the next two years.

Phyllis Reed at Barclays Capital said the report prompted investors to switch from the long end to the short end of the gilts market. The market is now pricing in a 50 basis point cut in the interest rate by June.

The long end of the gilts market was also undermined, according to Ms Reed by the record sale of £1.65bn of bonds for the Channel tunnel rail link. The issue was significantly oversubscribed and absorbed most of the demand for the sterling paper.

European markets, which had a "spectacularly" dull day, are likely to be dominated by the US and Japanese bond markets in the short term, observers said. They lacked any support from the European Central Bank, which appears to be increasingly reluctant to cut interest rates in the first quarter of the year.

Germany's benchmark 10-year bund future closed 0.04 higher at 116.36.

Ian Douglas at Warburg said comments from Wim Duisenberg, the head of the ECB, looked set to weigh on the short end of the euro-zone market. Mr Duisenberg earlier suggested that there was currently little appetite at the new central bank to ease rates.

David Knott at Deutsche Bank said the market did not expect an interest rate cut from the ECB until June.

Singapore halves size of exchangeable issue

NEW ISSUES

By Vincent Boland and Khozem Merchant

Singapore yesterday cut the size of an exchangeable bond offering by roughly half because of poor demand from investors and suggestions among bankers that the issue had been priced too tightly to be more widely attractive.

The government had planned to raise up to $1.6bn selling bonds, guaranteed by the state, exchangeable into shares of Development Bank of Singapore, one of the state's main banking groups.

The issue was to include $1.3bn of bonds with an additional $300m to cover over-allotments, but it was reduced to $765m after soundings in the market.

The bonds were issued by Finlayson Global Corp, a special funding vehicle, and were priced yesterday to give a conversion premium into DBS shares of 20 per cent, the highest achieved so far for a Singaporean convertible bond issue.

Temasek Holdings, the government's investment holding company, said it had no plans to sell more of the bonds and acknowledged that its original plan was over-ambitious.

"We wanted to transact the deal on terms we had expected pre-launch. We wanted to be sensitive to what the market was saying and at the same time maintain those terms," Temasek said.

The bond issue, lead managed by Goldman Sachs and DBS, was originally priced to offer a conversion yield of 20 to 25 per cent. However, the structure – the bonds could be exchanged for domestic or foreign shares in DBS – raised concerns that the two might be merged, which would have reduced the premium available to investors.

"There was not enough demand to do the original size and ensure that it would trade well," one banker said. "It was sensible to reduce it and get good terms."

Elsewhere in a busy day in the primary markets the bias towards dollar-denominated issues continued. Freddie Mac priced the $4bn issue launched earlier this week. Bankers said demand for dollar-denominated bonds was strong in the primary and secondary markets after a lull in January when attention focused on euro issuance.

The Asian Development Bank was one of several big borrowers in the market, making its first appearance of 1999 with a $500m issue. The three-year bonds – a maturity particularly favoured now among such borrowers – were priced to yield 46 basis points over comparable US Treasuries and traded unchanged.

LW Rentenbank, an AAA-rated German credit agency financing public agriculture projects, also launched in dollars with a $750m five-year bond. The bonds were priced at 58 basis points over the relevant treasury bonds.

Bankers said one reason for the flood of dollar issues was that swaps in euros were narrow, making issuance in the currency expensive. This lack of opportunity has forced some borrowers to turn to dollar paper.

Cades, the state-owned body that manages France's social security debt, launched a €500m addition to its €1.5bn issue. Bankers said the agency was persuaded to return to the market because of the encouraging trading performance of the original issue, launched in January.

This was a five-year bond launched at 12 basis points over OATs and had tightened to 9-10 basis points.

The add-on was launched at 11 basis points over five-year BTANs.

There was sufficient demand from investors to issue more paper, but Cades pegged the size at €500m in line with its reduced borrowing requirements.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
Freddie Mac	4bn	5.00#(j)	99.894R	Feb 2001	0.0825R	+30(4½Jan01)	CSFB/Goldman/Merrill
CCCMT 1, 99-1, Cls A(a)‡	750	5.50(a)	99.788R	Feb 2004	0.25R	+73(4¼Nov03)	Salomon Smith Barney
LW Rentenbank	750	5.375	99.858R	Feb 2004	0.25R	+58(4¾Feb04)	Lehman/Salomon SB
Asian Development Bank	500	5.25	99.886R	Feb 2002	0.10R	+46(4½Jan01)	Salomon Smith Barney
■ EUROS							
Cades(b,f)	500	3.375(a)	99.564R	Jul 2004	0.25R	+11(3½Jul04)	Lehman/Nomura/Paribas
Royal KPN(c,e)	477.42	4.75	103.698R	Nov 2008	0.325R	+48(3¾Jan09)	ABN Amro/Warburg DR
Agence Française de Dev(l)	300	3.90(a)	99.376R	Apr 2009	0.325R	+12(4¼Apr09)	CCF/JP Morgan
Svenska Handelsbanken‡	150	(d)	99.912	Aug 2000	0.05	-	SG
■ STERLING							
LCR Finance	1.225bn	4.50#(s)	99.178R	Dec 2028	0.1875R	+33(6%Dec28)	HSBC/Warburg DR
LCR Finance	425	4.50#(s)	99.989R	Dec 2038	0.1875R	+28(6%Dec28)	HSBC/Warburg DR
KfW Intl Finance(f)	400	6.00	118.517	Dec 2028	0.45	-	Warburg Dillon Read
European Inv'ment Bank(g)	250	6.00	118.315	Dec 2028	0.45	+50(6%Dec28)	Dresdner KB
■ SWISS FRANCS							
Electricité de France(h)	200	2.50	101.85	Feb 2006	2.25	-	Deutsche Bank (Switz)
■ CANADIAN DOLLARS							
Province of Manitoba	150	5.25	99.45R	Mar 2006	0.325R	+22(8%Dec05)	CIBC
GMAC Canada	100	5.50(l)	99.58R	Jun 2004	0.30R	+57(5¼Sep03)	TD Securities
■ GREEK DRACHMA							
Credit Local de France	20bn	8.50	100.00R	Feb 2002	0.125R	-	Dexia/Unicredito

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Legal maturity: 15/2/06. Also: Class B, $48m, 4.99 yrs, 5⅝%, 99.898R, +95bp. b) Fungible with €1.5bn. Plus 9 days accrued. Spread re French govt bonds. c) Fungible with DM2bn (€1.02258bn). Plus 109 days accrued. d) 3-mth Euribor -8¼bp. e) Spread relates to German govt bonds. f) Fungible with £600m. Plus 72 days accrued. £250m issued at 118.617 and £150m at 118.39. g) Fungible with £1.375bn. Plus 78 days accrued. h) Fungible with SFr200m. Plus 30 days accrued. l) Long 1st coupon. s) Short 1st coupon.

NEWS DIGEST

SECURITIES TRADING

Euroclear to introduce real-time settlement

Euroclear, the Brussels-based clearing and settlement system for internationally traded securities, is to launch a real-time settlement platform at the end of September to provide real-time access to the markets in which it operates. The platform will come into operation for the September 27 settlement day, and Euroclear said yesterday the new system would allow users "greater flexibility and less risk" in managing their trading. It will allow for same-day settlement of repo transactions and extended deadlines. The platform will initially be accessible between 4am and 6pm Brussels time.

The introduction of real-time settlement is part of Euroclear's aim of developing its hub settlement structure following the introduction of the euro. It could also lead eventually to shorter settlement periods than the T+2/T+3 system operating in many European securities markets.

The timing of the launch means that users of the Euroclear real-time settlement platform will be able to integrate it into their own systems before the end of 1999, which the clearer said would allow "a smooth Year 2000 roll-over". Users that do not wish to integrate until next year will also not have to make any changes to their own link-ups with the system, Euroclear said. Observers say the launch of the euro and moves by the London and Frankfurt stock exchanges to create a pan-European trading platform for shares in Europe's top companies have increased pressure on clearing houses to make cross-border settlement more accessible. **Vincent Boland**

ROYALTY BONDS

Iron Maiden in $30m issue

The British rock bank Iron Maiden has launched a long-dated $30m asset-backed bond securitised on future earnings from royalties. The heavy metal group joins a number of top pop performers who have diversified their incomes by tapping the capital markets. They include David Bowie, who raised $55m when he sold bonds securitised on the income from his early albums, Rod Stewart, the singer who raised a £15.4m securitised loan from Nomura, and the song-writing team Holland Dozier Holland.

Global Entertainment Capital, the US investment bank that arranged the "Iron Maiden corporate credit", said the bond was distinct from previous pop issues because it did not carry a guarantee from an investment-grade entity. Guarantees on bonds launched by pop and rock performers enhance the credit quality of the asset. The 20-year bond was rated above investment grade.

"This [Iron Maiden] bond is securitised on the income streams generated from creative assets as opposed to external guarantees and credit enhancement," said Riaz Valani, vice-chairman of GEC. The royalty bonds will present the band with an upfront cash payment repayable from royalties over the next two decades. **Khozem Merchant**

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Feb 10	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	107.0980	4.81	-0.01	-0.05	-0.05	-0.37
	08/08	8.750	126.2628	5.21	-0.02	-0.06	-0.14	-0.73
Austria	07/00	5.875	103.7900	3.09	+0.07	+0.04	-0.05	-1.04
	01/08	5.000	107.8400	3.94	-	+0.02	-0.02	-1.22
Belgium	01/00	4.000	100.6959	3.00	-0.02	+0.05	-0.04	-1.05
	03/08	5.750	113.2800	3.95	-	+0.05	-0.03	-1.17
Canada	12/00	5.000	100.1700	4.90	+0.01	+0.04	+0.08	-0.05
	06/08	6.000	106.8000	5.07	+0.02	+0.02	+0.01	-0.27
Denmark	11/00	8.000	109.1200	3.50	+0.03	+0.05	-0.02	-0.73
	11/07	7.000	120.8500	4.11	-0.01	+0.07	-0.03	-1.34
Finland	06/00	4.000	101.3170	2.98	-	-0.01	-0.07	-0.72
	04/08	6.000	115.4510	3.95	-0.01	+0.02	-0.02	-1.16
France	07/00	4.500	101.3500	2.98	+0.01	+0.07	-0.06	-0.09
	10/05	7.750	124.9100	3.50	-	+0.04	-0.06	-1.26
	10/08	8.500	137.0100	3.85	-0.01	+0.08	-0.01	-1.24
	04/29	5.500	112.1300	4.74	-	+0.04	-0.03	-0.92
Germany	06/00	4.000	101.2900	2.89	+0.02	+0.02	-0.04	-0.07
	10/05	6.500	116.9500	3.58	-	+0.05	-0.08	-1.22
	07/08	4.750	107.3200	3.80	-0.01	+0.05	-0.04	-1.26
	01/28	5.625	113.9600	4.73	-0.01	+0.03	+0.01	-0.92
Greece	03/00	9.800	100.2801	9.80	-0.25	-0.49	-0.61	-6.29
	03/08	8.600	117.1788	6.11	-0.04	-0.03	-0.41	-4.78
Ireland	10/01	6.500	108.5600	3.12	-0.02	+0.02	-0.06	-1.67
	08/08	6.000	115.7000	3.98	-0.02	+0.08	-0.03	-1.26
Italy	04/01	4.800	102.9200	3.08	-	+0.04	-0.05	-1.73
	07/03	4.500	104.5300	3.39	-	-0.03	-0.01	-1.69
	05/08	5.000	107.6000	3.98	-	+0.05	+0.01	-1.38
	11/27	6.500	124.7600	[illegible]	-0.01	+0.02	+0.05	-1.02
Japan	12/00	6.800	111.5420	0.59	-	-0.14	-0.07	-0.34
	12/03	4.100	112.9650	1.33	-	-0.29	+0.05	-0.06
	06/08	1.800	98.4360	1.98	+0.01	-0.30	+0.24	+0.20
	03/18	2.700	98.0000	2.84	+0.02	-0.25	+0.32	+0.23
Netherlands	05/00	9.000	107.3000	3.00	+0.03	+0.02	-0.07	-0.95
	07/08	5.250	110.6200	3.88	-0.01	+0.05	-0.06	-1.14
New Zealand	02/01	8.000	105.5076	5.03	-0.01	+0.03	-0.16	-2.34
	07/09	7.000	111.1022	5.58	-0.03	-0.01	-0.06	-1.17
Norway	05/01	7.000	104.6000	4.81	-0.02	-0.10	-0.67	+0.55
	01/07	6.750	113.7000	4.64	-0.05	-0.15	-0.46	-0.69
Portugal	03/00	5.375	102.4700	3.06	-0.01	+0.02	-0.11	-1.24
	06/08	5.375	110.7200	3.98	+0.01	+0.01	-0.02	-1.26
Spain	04/00	5.750	104.1900	3.00	+0.04	-	-0.04	-1.36
	01/08	6.000	115.0900	3.96	-	+0.06	-0.03	-1.33
Sweden	05/00	10.250	108.1415	3.29	-0.01	+0.01	-0.11	-1.51
	05/08	6.500	116.1450	4.09	-0.01	+0.04	-0.01	-1.98
Switzerland	06/00	4.500	104.0200	1.38	-0.02	-0.03	-0.03	-0.10
	01/08	4.250	115.5000	2.30	-0.01	-0.01	-0.06	-0.58
UK	11/01	7.000	105.9900	4.64	-0.01	-0.02	+0.05	-1.87
	12/03	6.500	109.3200	4.33	-0.02	+0.04	+0.07	-1.73
	10/08	9.000	136.4200	4.34	-	+0.08	+0.04	-1.68
	12/28	6.000	129.0200	4.27	-	-	-0.05	-1.75
US	03/00	4.500	99.4883	4.93	+0.01	+0.05	+0.04	-0.59
	05/03	5.250	101.4768	4.88	+0.01	+0.08	+0.02	-0.75
	05/08	5.625	104.5713	5.00	-0.01	+0.07	+0.04	-0.84
	08/28	5.500	101.0233	5.43	-0.01	+0.07	+0.04	-0.53

London closing. * New York mid day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents

10 YEAR BENCHMARK SPREADS

Feb 10	Bid Yield	Spread vs Euros	Spread vs T-Bonds
Australia	5.23	+1.43	+0.33
Austria	4.07	+0.27	-0.83
Belgium	3.98	+0.18	-0.92
Canada	5.08	+1.28	+0.18
Denmark	4.11	+0.31	-0.79
Finland	3.99	+0.19	-0.91
France	3.86	+0.06	-1.04
Germany	3.80	-	-1.10
Greece	6.04	+2.24	+1.14
Ireland	4.04	+0.24	-0.86
Italy	3.98	+0.18	-0.92
Japan	2.01	-1.79	-2.89
Netherlands	3.92	+0.12	-0.98
New Zealand	5.58	+1.78	+0.68
Norway	4.68	+0.88	-0.22
Portugal	4.03	+0.23	-0.87
Spain	4.07	+0.27	-0.83
Sweden	4.11	+0.31	-0.79
Switzerland	2.40	-1.40	-2.50
UK	4.32	+0.52	-0.58
US	4.90	+1.10	-

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Feb 10	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
■ EUROPE								
Croatia	02/02	7.000	BBB-	94.0850	9.28	-0.06	-0.28	+4.51
Poland	07/04	7.125	BBB-	105.4601	5.90	-0.06	-0.06	+1.12
Russia	06/07	10.000	n/a	27.5700	41.09	-1.92	-0.86	+36.24
■ LATIN AMERICA								
Argentina	09/27	9.750	BB	83.2813	11.79	-0.08	+0.71	+6.51
Brazil	05/27	10.125	B+	65.2300	15.63	-0.41	-0.38	+10.35
Mexico	05/26	11.500	BB	104.6196	10.96	-0.06	+0.16	+5.70
■ ASIA								
China	07/06	7.750	BBB+	100.4258	7.66	-0.04	+0.30	+2.83
Philippines	10/16	8.750	BB+	94.4318	9.40	-0.08	+0.50	+4.35
Thailand	04/07	7.750	BBB-	98.7396	7.96	-0.06	-0.23	+3.11
■ AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	104.1051	6.04	-0.04	-0.42	+1.30
South Africa	10/08	8.375	BB+	95.1028	9.28	-0.02	-0.41	+4.45
Turkey	09/07	10.000	B	88.8194	12.14	-0.08	+0.18	+7.29
■ BRADY BONDS								
Argentina	03/23	5.750	BB	68.7500	9.35	-0.07	+0.32	+4.07
Brazil	04/14	5.000	B+	57.0000	14.60	-0.34	-0.29	+9.59
Mexico	12/19	6.250	BB	76.6646	8.69	-0.06	+0.05	+3.58
Venezuela	03/20	6.750	B+	68.0000	10.89	-0.07	+0.13	+5.76

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

■ NOTIONAL EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	112.03	112.14	+0.25	112.30	112.02	38,737	93,029

■ LONG TERM EURO BOND OPTIONS (MATIF)

Strike Price	Calls Feb	Calls Mar	Puts Feb	Puts Mar
110	1.71	[illegible]	0.04	[illegible]
111	1.28	[illegible]	0.14	[illegible]
112	0.57	[illegible]	0.43	[illegible]
113	0.18	[illegible]	1.04	[illegible]

[illegible]

Germany

■ NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	116.43	116.36	+0.04	116.64	116.34	385,314	337,993

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	108.21	108.20	+0.01	108.32	108.19	105,839	178,134

■ NOTIONAL LFB SWAP FUTURES (LIFFE)* 5yr 4.5% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	[illegible]	101.97	+0.10	[illegible]	[illegible]	0	1040

■ NOTIONAL LFB SWAP FUTURES (LIFFE)* 10yr 4.5% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	102.95	102.83	+0.17	102.95	102.95	50	970

Also traded on APT. All Open interest figs. are for previous day.

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	114.43	114.35	+0.03	114.57	114.29	[illegible]	[illegible]

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF) €100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	117.43	117.36	+0.05	117.61	117.36	15,170	22,671
Jun	[illegible]	117.32	-	-	-	-	1

UK

■ NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	[illegible]	105.10	-0.05	[illegible]	[illegible]	0	[illegible]
Jun	[illegible]	105.05	-0.05	[illegible]	[illegible]	0	0

■ NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	118.90	118.53	-0.17	119.00	118.43	[illegible]	[illegible]
Jun	118.61	118.41	-0.09	118.68	118.32	[illegible]	[illegible]

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

■ LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	Calls		Puts	
11800	[illegible]	[illegible]	[illegible]	[illegible]
11850	[illegible]	[illegible]	[illegible]	[illegible]
11900	[illegible]	[illegible]	[illegible]	[illegible]
11950	[illegible]	[illegible]	[illegible]	[illegible]
12000	[illegible]	[illegible]	[illegible]	[illegible]
12050	[illegible]	[illegible]	[illegible]	[illegible]

Est. vol. total [illegible]

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	125-05	125-03	+0-05	125-13	125-01	[illegible]	[illegible]
Jun	124-24	124-21	+0-05	125-01	124-21	[illegible]	[illegible]
Sep	124-14	124-15	+0-05	124-13	124-15	[illegible]	[illegible]

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	128.90	128.45	[illegible]	128.92	128.45	[illegible]	[illegible]
Jun	128.73	128.36	[illegible]	128.74	128.41	[illegible]	[illegible]

Euro

■ € BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	111.70	111.65	+0.50	111.70	111.40	21	194

US CORPORATE BONDS

Feb 8	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ UTILITIES								
Pac Bell	07/02	7.25	AA-	105.6044	5.41	-0.02	+0.03	+0.41
NY Tel	08/25	7.00	A+	100.7540	6.93	-0.01	+0.03	+1.59
CWE	05/08	8.00	BBB	114.2309	5.97	-0.01	-0.06	+1.04
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Source: Interactive Data/FT Information

INTERNATIONAL BONDS

Feb 10	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
■ $								
EIB	04/07	7.250	AAA	111.0589	5.53	-	-0.05	+0.68
ABN Amro	06/07	7.125	AA-	105.9704	6.18	-0.02	-0.34	+1.33
Unilever	01/07	7.000	A+	106.7721	5.92	-	-0.14	+1.07
Citicorp FRN	02/04	5.312	AA-	99.7800	5.59	-0.03	-1.06	+0.61
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

London closing. Standard & Poor's ratings. Yields: Local market standard/annualised basis. Source: Interactive Data/FT Information

US INTEREST RATES

Treasury Bills and Bond Yields

Prime rate	7¾	One month	[illegible]	Two year	4.77
Broker loan rate	7¾	Two month	[illegible]	Three year	4.78
Fed.funds	4¾	Three month	4.43	Five year	4.80
Fed.funds at intervention	4¾	Six month	4.52	10-year	4.88
		One year	4.62	30-year	5.32

UK BONDS

FTSE Actuaries Government Securities

[illegible]

UK Indices

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

CURRENCIES & MONEY

Yen drops on talk of US urge to ease

MARKETS REPORT

By Alan Beattie and Melanie Carroll

Rumours that the US administration was actively pushing Japan to loosen monetary policy knocked the yen sharply lower against the dollar yesterday.

Reports in the US press claimed that the US administration, in an apparent reversal of its strong dollar policy, was pressing the Bank of Japan to ease monetary policy, weakening the yen.

Despite a denial of this by Thomas Foley, the US ambassador to Japan, the yen dropped sharply lower against the dollar during the Asian trading session. It regained some of those losses in London trading hours, closing at Y114.5, slightly lower than its close of Y114.4 on Tuesday.

The yen also fell against the euro, closing down at Y129.7.

■ Market analysts said that the story had affected the yen, but that its truth was difficult to gauge.

"This story may have been written with a great deal of background briefing, or it may have been completely speculative," said Paul Meggyesi, currency strategist at Deutsche Bank in London.

"But the important thing is that it told the market what it wanted to hear." Mr Meggyesi said that the story chimed with the widely held belief among analysts that the Bank of Japan should print money. "If the story had said the opposite, the market might well have ignored it," he said.

Attention is now focusing on the Bank of Japan's monetary policy meeting tomorrow. Speculation in the market of the meeting's outcome has varied between a radical shift towards monetisation, perhaps accompanied by an inflation target, a cut in short-term interest rates and no action at all.

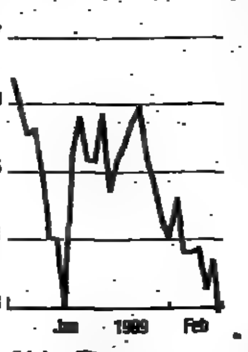
■ The Bank of England's quarterly inflation report yesterday managed to pull off what successive interest rate cuts have failed to, and drove sterling lower.

A dovish report and emphasis on falls in inflation expectations pushed the pound down to $1.629 against the dollar.

Short sterling prices also rose across the strip, with the largest rises of up to 8 basis points in contracts expiring later this year. "If anything the rise in short sterling prices is rather underdone," said Philip Shaw, chief economist at Investec in London. "I expect base rates to be at 4½ per cent by the end of 1999, and contracts out there look good value at the moment."

Sterling

Against the dollar ($ per £)



Source: Datastream/ICV

■ The Australian dollar hit a one-week low against the US dollar yesterday, dampened by weakness in the yen and continued low commodity prices.

Analysts at ABNAMRO said commodity prices have formed a base after renewed weakening and are not a large short term negative factor for the Aussie. However they warn short term investors to keep tight stops. They predict a low of A$0.60 in the next month.

But HSBC analyst Ian Morris said he was bullish about the fundamentals of the Aussie, particularly in the light of an expected budget surplus of up to A$10 billion for the 1998/99 fiscal year.

"The only weakness is languishing commodity prices, although there has been a disentanglement of the Australian dollar from commodities," he said.

The Australian dollar closed in London at US$0.646, against US$0.648 yesterday. The New Zealand dollar also fell after hitting a nine-month high on Monday.

Forthcoming developments may push the Aussie either way. Australian January labour market figures will be released today after a lead-in of consistently positive data. This may encourage the Reserve Bank of Australia to keep interest rates higher.

But in the longer term, Deutsche Bank's rumoured sale of investment bank BT Australia for an estimated A$3 bn may be big enough to move the currency down.

The bank has two obvious potential buyers - the Commonwealth Bank of Australia (CBA) and ING.

The CBA as buyer could have a negative effect on the Australian dollar, with the likely conversion of A$3bn into euros. A sale to ING is likely to bypass the Aussie altogether and be completed in euros.

■ POUND IN NEW YORK

Feb 10	—Latest—	— Prev. close —
£ spot	1.6275	1.6355
1 mth	1.6267	1.6348
3 mth	1.6258	1.6337
1 yr	1.6273	1.6348

■ OTHER CURRENCIES

Feb 10	£	$
Czech Rp	54.4212 - 54.[illegible]	33.4100 - 33.4400
Hungary	360.330 - 360.[illegible]	221.270 - 221.470
Iran	[illegible]	[illegible]
Kuwait	0.4931 - 0.4935	0.3028 - 0.3029
Peru	5.4976 - 5.5041	3.3760 - 3.3780
Poland	6.0743 - 6.0940	3.7300 - 3.7400
Russia	37.2784 - 37.3784	22.8900 - 22.9400
UAE	5.9812 - 5.9849	3.6728 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Feb 10		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria*	(Sch)	19.7[illegible]	-0.1332	[illegible]	19.[illegible]	19.7574	19.7[illegible]	2.2	19.[illegible]	2.1	19.3[illegible]	1.0	102.9
Belgium*	(BFr)	58.0416	-0.3908	127 - 704	58.4490	57.9210	57.9361	2.2	57.7313	2.1	56.[illegible]	2.0	102.8
Denmark	(DKr)	10.70[illegible]	-0.0630	[illegible]	10.7745	10.6775	10.6893	1.6	10.657	1.8	10.535	1.3	106.1
Finland*	(FM)	8.5548	-0.0576	505 - [illegible]	8.6150	8.5370	8.5391	2.2	8.509	2.1	8.3805	2.0	81.6
France*	(FFr)	9.4350	-0.0635	335 - 427	9.5041	9.4180	9.4209	2.2	9.38[illegible]	2.1	9.2458	2.0	106.2

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Feb 10		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan Index
Europe													
Austria*	(Sch)	12.1541	-0.0092	514 - 568	12.2075	12.1101	12.1376	1.6	12.1015	1.7	11.907	2.0	102.6
Belgium*	(BFr)	35.6312	-0.0677	234 - 391	35.7880	35.5200	35.5834	1.6	35.4782	1.7	34.9063	2.0	102.7
Denmark	(DKr)	6.5710	-0.0070	685 - 736	6.5980	6.5468	6.5645	1.2	6.5486	1.4	6.4875	1.6	105.2
Finland*	(FM)	5.2518	-0.0028	506 - 529	5.2740	5.2353	5.2447	1.6	5.2280	1.7	5.145	2.0	80.8
France*	(FFr)	5.7920	-0.0111	928 - 952	5.8180	5.7758	5.7861	1.6	5.7587	1.7	5.6761	2.0	105.6

WORLD INTEREST RATES

MONEY RATES

Feb 10	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Euro-zone	3¼	3⅛	[illegible]	[illegible]	[illegible]	–	3.00	3.00
Switzerland	[illegible]	[illegible]	1⅛	1¼	1⅜	–	1.00	–
US	[illegible]	4⅞	4⅞	[illegible]	5⅛	–	4.50	–
Japan	[illegible]	[illegible]	[illegible]	[illegible]	⅝	–	0.50	–
■ S LIBOR BBA London								
Interbank Fixing	–	[illegible]	[illegible]	5	5⅛	–	–	–
US Dollar CDs	–	4.74	4.75	4.82	4.91	–	–	–
Euro Linked Ds	–	[illegible]	[illegible]	[illegible]	[illegible]	–	–	–
SDR Linked Ds	–	[illegible]	3⅛	[illegible]	[illegible]	–	–	–
BBA Euro Libor	–	[illegible]	[illegible]	[illegible]	[illegible]	–	–	–
Euro Euribor	–	3.151	3.109	3.052	3.039	–	–	–
EONIA	[illegible]	–	–	–	–	–	–	–
EURONIA	3.1157	–	–	–	–	–	–	–

London Interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am.

INTERNATIONAL CURRENCY RATES

Feb 10	Short term	7 days notice	One month	Three months	Six months	One year
Euro	[illegible]	[illegible]	[illegible]	[illegible]	[illegible] - 3	[illegible] - 3
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	1 - ⅞	[illegible] - 1	[illegible] - 1	[illegible]	[illegible]	[illegible]
Canadian Dollar	5 - 4⅞	[illegible]	5 - 4⅞	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	5 - [illegible]	[illegible]
Japanese Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

UK INTEREST RATES

LONDON MONEY RATES

EMS EUROPEAN CURRENCY UNIT RATES

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
94500	0.195	0.490	0.635	0.015	0.030	0.055
94625	0.100			0.045		
94750	0.040	0.290	0.435	0.110	0.090	0.105
94875	0.020			0.215		
95000	0.005	0.135	0.270	0.325	0.175	0.190
95125	0			0.445		

Est. vol. total, Calls 24700 Puts 22174. Previous day's open int., Calls 534249 Puts 571140

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	94.98	94.98	–	–	–	28,752	436,607
Jun	94.95	94.96	+0.01	–	–	62,990	446,220
Sep	94.92	94.97	+0.02	–	–	102,076	429,608

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.65	95.69	+0.08	–	–	43	[illegible]
Jun	95.71	95.72	+0.01	–	–	6	469

All Open interest figs. are for previous day

BASE LENDING RATES

	%		%		%
Adam & Company	5.50	Exeter Trust Limited	5.50	Smith & Williamson	5.50
Allied Irish Bank (GB)	5.50	●Robert Fleming & Co	5.50	Sun Bank	5.50
●Henry Ansbacher	5.50	Habib Bank AG Zurich	5.50	TSB	5.50
Banco Bilbao Vizcaya	5.50	Heritable & Gen Inv Bk	5.50	United Bank of Kuwait	5.50
Bank of Cyprus	5.50	C. Hoare & Co	5.50	Unity Trust Bank Plc	5.50
Bank of Ireland	5.50	●SG Hambros Bank & Trust	5.50	Whiteaway Laidlaw	5.50
Bank of India	5.50	Hongkong & Shanghai	5.50	Yorkshire Bank	5.50
Bank of Scotland	5.50	Investec Bank (UK) Ltd	5.50		
Barclays Bank	5.50	Julian Hodge Bank	5.50		
Brit Bk of Mid East	5.50	●Leopold Joseph & Sons	5.50		
●Brown Shipley & Co Ltd	5.50	Lloyds Bank	5.50		
Citibank NA	5.50	Midland Bank	5.50		
Clydesdale Bank	5.50	NatWestminster	5.50		
The Co-operative Bank	5.50	●Rea Brothers	5.50		
Coutts & Co	5.50	Royal Bk of Scotland	5.50		
Cyprus Popular Bank	6.00	Scottish Widows Bank	5.50		
Duncan Lawrie	5.50	●Singer & Friedlander	5.50		

● Members of London Investment Banking Association

COMMODITIES & AGRICULTURE

SHEEPMEAT FARMERS' COMPLAINT UPHELD

NZ exporters to fight US lamb ruling

By Terry Hall in Wellington

The New Zealand meat industry is to step up efforts over coming weeks to overturn a ruling by the US Trade Commission that threatens the future of the country's NZ$100m (US$56m) lamb exports to the United States.

The commission upheld a complaint by US lamb producers that imports were unfairly threatening and injuring their livelihoods. Cyndi Siddoway, vice-president of the US Sheepmeat Association, said imports had soared in recent years, undercutting prices of the local product by 70 per cent.

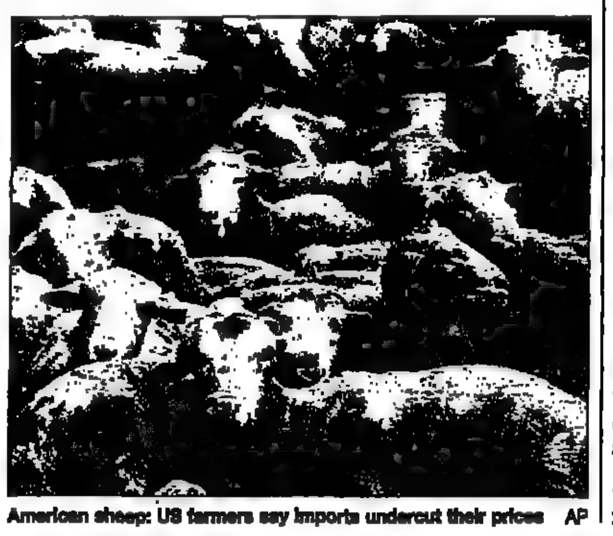
The news stunned the New Zealand industry, which argued before the commission that the low prices US farmers were receiving had nothing to do with imports, but were primarily due to American sheep farmers' lack of competitiveness in the face of record low prices for pork and poultry.

Most American sheep farms are small units run by hobby farmers. Australasian exporters argued that the American farmers had much to gain from their lamb promotional and marketing efforts, rather than by trying to force them out.

Brian Lynch of the New Zealand Meat Industry Association said the issue was not just a matter of contention between the US and New Zealand sheepmeat industries, but went to the heart of the broader bilateral relationship between the two countries. "This dispute will be settled at the highest political level," he said.

Mr Lynch said the ultimate ruling, expected to be announced after a decision by President Clinton next month, would be influenced by the shared objectives of New Zealand and the United States in forums such as Asia-Pacific Economic Co-operation (Apec) and the World Trade Organisation.

"These aims are to free up global trade and restrain the type of self-centred protectionist behaviour that the American sheep industry is urging on its government."



American sheep: US farmers say imports undercut their prices AP

News of production cuts fails to lift nickel

MARKETS REPORT

By Robert Corzine, Gillian O'Connor and Paul Solman

Two announcements of cuts in nickel production failed to galvanise the price on the London Metal Exchange yesterday.

First Norilsk, the big Russian producer, announced plans to cut output at its core unit, the Siberian Norilsk plant, by 5-6 per cent, and at its Severonikel unit in the north-west by 10 per cent, during the period of modernisation work.

The revamp, due to start in the second quarter, could last the whole year. Then Inco, the big Canadian nickel producer, revealed plans to reduce its 1999 output to 408m lbs, compared with 423m lbs in 1998.

The snag is that both cuts had already been "talked about for ages", as one trader put it. The Norilsk announcement, early in the day, was shrugged off; Inco's, after the market had closed, produced some support for prices.

Nickel bulls added the cuts to ones announced at Larco and Western Mining earlier this year, to arrive at an overall reduction of 30,000 tonnes. "Producers have now managed to clear the nickel market surplus we were forecasting in November," chortled Nick Moore at Flemings.

Oil prices firmed yesterday in spite of contradictory inventory data from the US, the world's biggest petroleum market.

Brent Blend for March delivery was quoted at $10.28 a barrel in late trading on London's International Petroleum Exchange, 19 cents up on Tuesday's close.

Prices were even higher in early trading as the markets reacted to bullish data from the American Petroleum Institute, showing that there had been a big, 7.43m barrel drawdown of US crude oil stocks in the previous week.

But prices tumbled when the US Department of Energy released its weekly supply data, which showed a 600,000 barrel increase in crude inventories.

Traders watch the weekly US figures closely for clues as to whether the global crude surplus is beginning to subside. The US is one of the few countries to produce reasonably reliable information on oil stocks, although – as this week's numbers show – the two main reporting agencies can diverge widely in their assessments.

Robusta coffee prices jumped to a two-week high on the London International Financial Futures and Options Exchange yesterday on sudden buying activity from the trade.

The benchmark March contract rose to $1,743 a tonne at one point before finishing at $1,739, a gain of $22 on Tuesday's close.

Meanwhile, Colombia said sharp falls in sales of coffee helped bring down its total export earnings by more than 6 per cent last year. The country, which is the world's second largest coffee exporter, said its coffee exports fell 16 per cent to $1.9bn. Total exports were $10.8bn.

Liffe cocoa futures also rose. The March contract clambered back above £900 a tonne to end the day up £9 at £902, while the most actively traded May contract finished up £8 at £904.

Latvia under threat as conduit for Russian oil exports

The port of Ventspils faces stiff competition from rival ventures in the region hoping to grab a share of the lucrative oil transit business, reports **Matej Vipotnik**

It has been a difficult year for the Latvian port of Ventspils, which has had to face a two-pronged attack on its position as the leading outlet for Russian oil in the eastern Baltic.

Russia, which exports 13 per cent of its oil output through Ventspils, last year imposed economic sanctions on Latvia and made plans to build competing oil terminals in the Gulf of Finland.

Neighbouring Lithuania, eager to grab a share of Latvia's lucrative oil transit business, began construction of an oil terminal on the border between the two Baltic states.

The Latvian port retains for the time being its dominant position but these rival ventures have cast a shadow on its ambition to remain the main terminal for the export of Russian crude in the region.

Russia's plans to build two oil terminals in the Gulf of Finland, at Batareynaya and Primorsk, were from the beginning an expensive and over-ambitious proposition, analysts say.

The planned terminals, with a projected cost of $5bn, fell victim to Russia's economic crisis as both the government and western banks backed out.

"The Russians have many projects in mind but they have no money," said Ritvars Priekalns, deputy director general of Ventspils Nafta, the terminal operator.

Not only did Russian oil companies back away from the two oil projects last August, they actually increased their exports via Ventspils in an attempt to shore up their finances, rocked by the low international price of crude oil and Russia's economic crisis.

Ventspils had suffered a fall in the volume of oil transit in the first nine months of 1998. Russian oil companies reduced shipments following a spat between the Latvian and Russian governments over the rights of Russian speakers in the Baltic state. But it has been a beneficiary of the subsequent surge in exports.

In the last quarter Ventspils recovered volume it lost in the preceding nine months, Mr Priekalns said. Ventspils nevertheless saw its annual transit turnover in crude and oil products plummet to 20.6m tonnes last year, compared with 24.1m tonnes in 1997.

The oil terminals in the Gulf of Finland remain for the time being a distant menace, but the Butinge terminal is an immediate threat and object of an acrimonious dispute between Latvia and Lithuania.

Butinge, which is partly owned by Williams International of the US, may start reloading oil later this month. Oil will not be reloaded from a conventional dock, but from a floating buoy – a procedure which the Latvian government claims is risky, and could lead to oil spills.

Despite intense diplomatic efforts on their behalf, Latvian oil men privately concede that Butinge is not an environmental issue, but a financial one. "In our worst case scenario, 1m-2m tonnes from our current [annual] flow will be taken by Butinge," said Mr Priekalns.

The argument over Butinge has not only soured relations between Latvia and Lithuania. It has also scuttled plans to rationalise oil transit in the region.

The existing oil pipeline running from Polotsk in Belarus, via Lithuania, to Ventspils is operating at full capacity of about 15m tonnes of crude per year and plans had been drafted to build a new pipeline.

A joint Latvian-Russian company, Western Pipeline System, was founded to arrange the financing and possible routes were explored.

The best route, according to Ojars Kehris, deputy chairman of LatRosTrans, a shareholder of Western Pipeline System, would be a pipeline connecting Ventspils with the Mazeikiu Nafta refinery in northern Lithuania.

Mazeikiu lies on an extension of the existing pipeline to Ventspils. The pipeline from Russia has spare capacity up to Mazeikiu, and connecting the latter with Ventspils would take advantage of that capacity.

It would be the cheapest option, says Mr Kehris, and would give Mazeikiu Nafta's oil products better access to Ventspils.

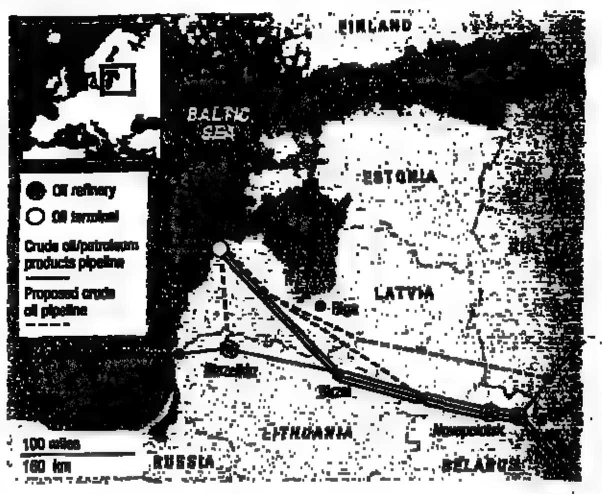
This route has, however, been scrapped after the Lithuanian government decided to proceed with plans to complete the Butinge terminal, ostensibly to ensure Lithuania's "energy independence".

"If we want to be a really independent country, we should develop our own resources," says Viktoras Valentukevicius, Lithuania's deputy economy minister, referring to Lithuania's desire to insulate itself from potential pressure from Russia.

Events over the past week confirmed Lithuania's concerns, as Russia's Lukoil, which co-ordinates the supply of crude to Mazeikiu Nafta, refused to renew the supply contract until it is sold a stake in the refinery.

But Lithuania cannot count on much sympathy from Latvia's oil business, which is moving to exclude its Baltic neighbour from the route of the new pipeline.

Two basic routes are currently being considered. The first would see a pipeline built alongside the existing one, running from Polotsk in Belarus directly to Ventspils. It would cost about $200m. The second option would be a pipeline from Nevel in Russia, which would bypass Belarus. Both pipelines would bypass Lithuania.



COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1197-98	1222-22.5
Previous	1226-7	1249-50
High/low		1234/1222
AM Official	1207-7.5	1230.5-1.0
Kerb close		1216-18
Open int.	296,773	
Total daily turnover	94,744	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1033-38	1065-66
Previous	1050-55	1070-75
High/low		1080
AM Official	1036-8	1055-60
Kerb close		1055-60
Open int.	7,585	
Total daily turnover	5,242	

■ LEAD ($ per tonne)

Close	509.5-10.5	513.5-14.0
Previous	513-4	515-6
High/low		515/510
AM Official	508-8.5	511-2
Kerb close		513-4
Open int.	37,894	
Total daily turnover	10,404	

■ NICKEL ($ per tonne)

Close	4625-35	4700-05
Previous	4705-15	4780-85
High/low		4800/4655
AM Official	4630-35	4700-05
Kerb close		4730-5
Open int.	73,192	
Total daily turnover	[illegible]	

■ TIN ($ per tonne) [illegible]

■ ZINC, special high grade ($ per tonne) [illegible]

■ COPPER, grade A ($ per tonne) [illegible]

■ LME AM Official £/$ rate: [illegible]

■ HIGH GRADE COPPER (COMEX) [illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET [illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	288.0	-0.4	288.8	288.0	27	1,082
Mar	288.0	-0.5	-	-	-	2
Apr	288.7	-0.5	290.4	288.6	20,076	97,818
Jun	290.8	-0.5	292.3	290.5	499	24,811
Aug	292.6	-0.5	292.5	292.4	29	6,676
Oct	294.4	-0.4	[illegible]	296.0	2	2,600
Total					21,041	161,656

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Apr	361.0	+1.5	363.0	357.4	1,801	10,817
Jul	363.5	+1.3	364.5	364.0	1	1,582
Oct	366.0	+1.4	365.0	364.0	62	1,069
Total					1,864	13,381

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Mar	358.90	+5.40	357.00	354.50	204	2,823
Jun	345.90	+3.40	355.00	355.00	29	690
Sep	339.90	+3.40	-	-	-	127
Total					293	3,539

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

Feb	547.8	-1.7	-	-	488	25
Mar	548.6	-1.7	558.5	546.0	16,216	57,456
May	551.1	-1.3	559.0	549.0	3,586	16,041
Jul	552.1	-1.2	558.0	550.0	182	10,677
Sep	552.6	-1.1	557.0	551.0	74	3,874
Dec	553.1	-1.2	559.0	551.5	86	6,432
Total					20,348	100,332

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel) [illegible]

■ CRUDE OIL IPE ($/barrel) [illegible]

■ HEATING OIL NYMEX (42,000 US galls; c/US galls) [illegible]

■ GAS OIL IPE ($/tonne) [illegible]

■ NATURAL GAS NYMEX [illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls.) [illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne) [illegible]

■ WHEAT CBT [illegible]

■ MAIZE CBT [illegible]

■ BARLEY LIFFE (100 tonnes; £ per tonne) [illegible]

■ SOYABEANS CBT [illegible]

■ SOYABEAN MEAL CBT [illegible]

■ POTATOES LIFFE [illegible]

■ FREIGHT (BIFFEX) LIFFE [illegible]

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne) [illegible]

■ COCOA CSCE [illegible]

■ COCOA (ICCO) [illegible]

■ COFFEE LIFFE [illegible]

■ COFFEE 'C' CSCE [illegible]

■ COFFEE (ICO) [illegible]

■ WHITE SUGAR LIFFE [illegible]

■ SUGAR '11' CSCE [illegible]

■ COTTON NYCE [illegible]

■ ORANGE JUICE NYCE [illegible]

PULP AND PAPER

■ PULPEX OMLX [illegible]

VOLUME DATA [illegible]

FUTURES DATA All futures data supplied by CMS.

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open Int
Feb	65.450	-0.100	65.800	65.050	4,449	12,698
Apr	67.225	-0.200	67.300	66.775	7,558	50,671
Jun	65.650	+0.025	65.700	65.175	1,958	27,834

■ LEAN HOGS CME [illegible]

■ PORK BELLIES CME [illegible]

LONDON TRADED OPTIONS

[illegible]

LONDON SPOT MARKETS

[illegible]

INDICES

[illegible]

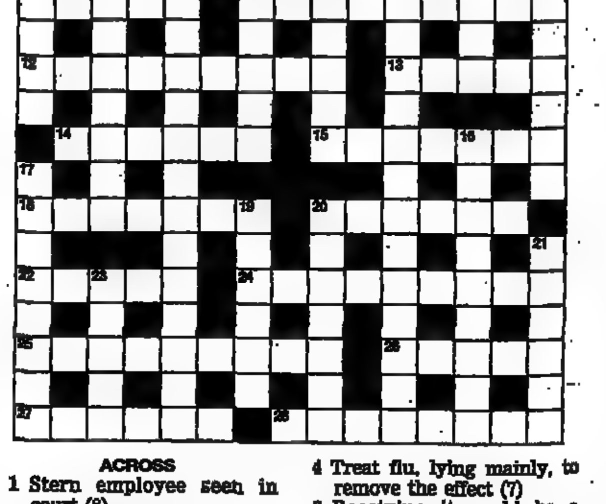
Nuts and seeds [illegible]

JOTTER PAD

For solutions to today's crossword call 0891 430080. Calls cost 50p a minute.

CROSSWORD

No.9,911 Set by QUARK



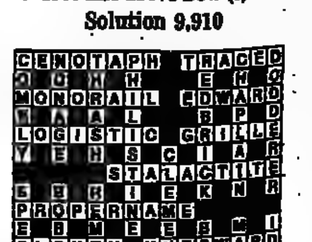
ACROSS

1 Stern employee seen in court (8)
5 Food following on show (6)
10 Pitch turning out badly – not A1 (5)
11 Drunk isn't clear, but he could be charged (9)
12 Fit in yarn in drink accompanying meal (5,4)
13 Temporary dwelling around river. This one? (5)
14 Break out with yen where the dough is (6)
15 Poor line in tiny inferior part (4-3)
18 Credo understood partially to make comeback (7)
20 Slate or tile to produce lagging effect (6)
22 Reverse led to cheers in grade four (5)
24 Conventional suit could be (5-4)
25 The flower of youth (9)
26 Plant, according to drunk, for a kind of whisky (5)
27 Gaseous hydrocarbon from an isle (Thanet) (6)
28 Disposed to be oblique (8)

DOWN

1 Is suitable for iron being picked up in pieces (6)
2 Interviewer's aid is a hit with the committee (9)
3 Learning when at one's peak? (6,9)
4 Treat flu, lying mainly, to remove the effect (7)
6 Receiving it could be a shock? (11,4)
7 English team the French banish (5)
8 Freedom from restraint in a different altitude (8)
9 Keen study in painting etc (6)
16 Scale drawing of face providing uplift (9)
17 RC need possibly contained in Church Trust (8)
19 University in formal clothing constraint (6)
20 I fall ill over issue of intrigue (7)
21 Came across builder's receptacle (in the way?) (6)
23 Tree line above Bow (5)

Solution 9,910



FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

JERSEY
(FSA RECOGNISED)

AIB Fund Managers (CI) Ltd

PO Box 468 St Helier Jersey 01534 883000

AIB Govett (Channel Islands) Limited (1000)F

Barclays International Funds

PO Box 152 St Helier, Jersey CI 01534 812700

Gartmore Fund Managers Intl Ltd (z)

Mercury Asset Mngt Channel Islands Ltd.

Midland Bank Fund Managers (Jersey) Ltd

Minerals, Oils Res. Shrs. Fd. Inc.

Murray Johnstone (Jersey) Limited

Newton Fund Managers (CI) Ltd

Northgate Unit Tst. Mngr. (Jersey) Ltd

Royal Bank of Scotland Fund Managers (CI) Ltd

LUXEMBOURG
(FSA RECOGNISED)

JERSEY
(REGULATED)(**)

LUXEMBOURG
(REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

	Notes	Price	+ or -	52 week high	low	Yld Gr's	NAV	Dis or Pm(-)
Approved by the Inland Revenue								
Aberdeen Emg Asia	♣	23½	—	29½	13¼	—	28.3	17.0
Atlantis Japan Gwth Fd		264½	—	282	158	—	343.7	23.1
Warrants		[illegible]	—	41	1½	—	—	—
Baring Emrg Euro	♣	96	[illegible]	118	55	—	118.0	18.5
Warrants		[illegible]	[illegible]	[illegible]	[illegible]	—	—	—
Brazilian IT		[illegible]		[illegible]	[illegible]	3.1	—	—
Warrants		[illegible]	[illegible]	[illegible]	7	—	—	—
Central Euro Gwth	♣	43½	[illegible]	[illegible]	26¼	—	54.6	20.6
Warrants		[illegible]	—	11½	[illegible]	—	—	—
East German		12¼		13	[illegible]	—	21.8	43.8
Egypt Trust $		717½	+5½	875	587½	2.2	—	—

Net asset values supplied by Lipper as a guide only. See guide to London Share Service

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

AIM

Alternative Investment Market

AIM - Continued

GUIDE TO LONDON SHARE SERVICE

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Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. Calls are charged at 50p per minute at all times.

An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

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For Retail Price Index details call 0891 43 0805

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

LONDON STOCK EXCHANGE

Six-session spin sends Footsie down 4 per cent

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

The downside pressure affecting London equities spilled over into a sixth day yesterday and quickly encompassed the whole of the market place.

It dragged down all the leading indices and finally brought the 11-session sequence of winning performances by the FTSE SmallCap index to a grinding halt.

Although staging a strong rally towards the end of the day, the leaders still finished in the red – the FTSE 100 closing the session a net 9.7 off at 5,770.2, extending the decline over the six sessions to 242.8 or 4 per cent.

At its worst, shortly before Wall Street opened, the index had dropped below 5,700 and threatened another three-figure decline.

The FTSE 250 index also suffered, eventually settling 19.9 off at 5,157.6, having been down 38.7 at its worst. The FTSE SmallCap was finally 5.7 down at 2,216.3.

But a better-than-expected start to the US session brought some much-needed relief to hard-pressed London dealers. The Dow was up 50 points not long after the opening bell, only to drift back as the UK market drew to a close.

Earlier, the prime reason for London's decline was again Wall Street, where the Dow Jones Industrial Average's overnight 158-point decline unnerved investors right across global markets.

Wall Street's weakness was triggered by a sell-off in high-tech and internet stocks, which have been driven to unrealistically high levels according to many market observers, among them Alan Greenspan, chairman of the US Federal Reserve.

London was also affected by the latest Bank of England quarterly inflation report, which was gloomy about growth prospects for this year, although it emphasised that UK inflation should remain around the government's 2.5 per cent target for at least two years.

The Bank's report said growth in gross domestic product would grow between 0.5 per cent-1 per cent this year. Not surprisingly, the overall weakness in the market led investors to seek out traditional defensive or safe-haven plays such as utilities and food manufacturers.

And the prospect of more interest rate cuts in the pipeline – many strategists are looking for UK interest rates to fall to 5 per cent by the end of this year – encouraged some keen buying of general and food retailers.

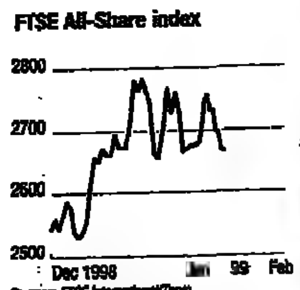
The outstanding performance in the FTSE 100 came from BSkyB, whose shares rocketed after the triumphant success of the company's new Sky Digital television system, which is winning new customers at a faster rate than expected.

Dealers are bracing themselves for this morning's preliminary results from Lloyds TSB, the first of the big UK banks to report since the extreme turbulence in global markets towards the end of last year.

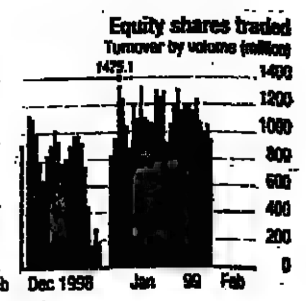
Tuesday's sell-off in the high-tech/internet areas caused severe damage to related UK stocks. Dixons, the high street retailer whose free internet service has been an instant success, fell heavily, while Psion, the computer group, was the worst of the FTSE 250 stocks after a profits warning.

Turnover at 6pm was 960m shares.

FTSE All-Share index



Equity shares traded
Turnover by volume (million)



Sources: FTSE International/Topic

Indices and ratios

FTSE 100	5770.2	-9.7	FT 30	3540.1	-1.0
FTSE 250	5157.6	-19.9	FTSE Non-Fins p/e	23.80	23.74
FTSE 350	2753.5	-5.8	FTSE 100 Fut Mar	5774.0	+9.0
FTSE All-Share	2665.16	-5.40	10 yr Gilt yield	4.48	4.47
FTSE All-Share yield	2.90	2.90	Long gilt/equity yld ratio	1.54	1.53

Best performing sectors

1. Food Producers +4.0
2. Distributors +1.5
3. Extractive Industries +1.5
4. Electricity +1.3
5. Chemicals +1.1

Worst performing sectors

1. Tobacco -1.7
2. Oil Integrated -1.4
3. Pharmaceuticals -1.1
4. Resources -1.1
5. Investment Trusts -1.0

Oil group up on talk of merger

COMPANIES REPORT

By Peter John, Martin Brice and Joel Kibazo

Monument Oil & Gas was the best performer in the mid-cap index with a near 13 per cent rise as the exploration and production stock became the sector's merger stock of choice.

The gossip had it that Enterprise had tired of its much talked about relationship with Lasmo and was looking instead at a company with a strong balance sheet and protection against fragile oil prices.

Enterprise has had talks with Monument before, when the two groups failed to agree over price. Dealers said Monument might consider a deal if the price was right but any deal would have to be mutually agreed and there was a question mark over leadership.

Cairn Energy was also mentioned as a possible partner and the shares jumped 6½ to 99½ on turnover of 3.1m. Jon Wright at Merrill Lynch said: "There is a logic perhaps for Cairn and Premier getting together with Monument because they both need to do something.

"Enterprise is not impossible but I think it is unlikely because it would have to issue paper and that would not go down well."

Monument ended the day 4¼ higher at 41½p and Enterprise lifted 11¼ to 249¾p with dealers expressing relief it had shifted away from Lasmo. Premier fell ½ to 12¼p.

BSkyB jumped 60½ to 474¾p in reaction to news of strong sales of the satellite broadcaster's recently launched digital TV service.

The announcement that BSkyB had beat its own target of 200,000 digital sales by the end of 1998, with sales reaching over 350,000, wiped out the impact of poor profits. BSkyB posted a sharp fall in first-half profits to £53.2m, below analyst forecasts, which were mostly in a range between £58m and £95m.

And good news for BSkyB meant bad news for rival Carlton Communications. Carlton, which has ONdigital in a 50:50 joint venture with Granada, slumped 38 to 596p. Its agm statement that it made a good start to the year had little effect on the shares. Granada, however, was more stable with a slide of only 8½ to £11.26½.

The profits warning from Psion prompted the volatile stock to suffer one of the worst performances in the market. It said weaker-than-expected revenues at its data communications division, Psion Dacom, would hit profits. It said its results would be in line with expectations around the £11.6m mark.

Keith Woolcock at Nomura International said the profits warning was "pretty much an irrelevance" and the 12 per cent fall in the shares represented "a great buying opportunity". He said: "The reason to hold this stock is the Symbian joint venture. Psion is a highly volatile stock and investors should buy on the dips." The shares were down 115 at 832½p as 2.5m were traded.

Computer software group Eidos was up 15 at £11.50 ahead of results due within the next fortnight. One broker was said to be telling clients the figures were likely to be unexpectedly strong.

Shares in mobile telephone operator Vodafone Group improved 7 to £10.64 after ABN Amro upgraded its earnings per share forecasts for the group.

Following a change in its estimates for AirTouch, the US group being acquired by Vodafone, the broker said: "Our upgraded Vodafone AirTouch model indicates eps of 31.8p in 2001, an upgrade of 11 per cent."

Furniture retailer Heal's cheered the market after it posted an upbeat Christmas and winter sale trading statement.

Sales for the 20 weeks to the end of January were four per cent ahead of the previous year. Like-for-like sales in the 20 weeks to January 31 were up 15 per cent. The shares gained 11½ to 119½p.

In the rest of the sector, demand for Kingfisher brought turnover of 2.2m as the shares appreciated 8½ to 674p while Marks and Spencer hardened 2¼ to 364¾p.

Dixons drops

The recent sharp falls in US internet stocks cast a shadow over electrical goods retailer Dixons Group. The shares retreated below £10 to close 41½ off at 982½p.

Much of the recent advance in the stock, which saw it hit a peak of £10.75 in January, was attributed to the group's successful launch of Freeserve, its free internet service.

Bid speculation continued to drive brewing and hotels company Vaux Group sharply ahead. "I can't see Vaux remaining independent for too long. I would say it is only a matter of months before someone shows their hand," said one sector specialist.

The latest bid talk came this week after the sudden departure of the company's chief executive and finance director.

Entertainment and hotels giant Granada Group and Whitbread were mentioned in the market yesterday as possible predators for the Sunderland-based brewer. Vaux shares gained another 28 to 301½ while those of Whitbread declined 18½ to 906½P.

Shares in Anglo-Dutch consumer products group Unilever jumped 36½ to 582½ with bargain-unting and switching into the stock said to have been behind the advance.

Dealers said buyers had been attracted to the shares following their recent retreat while some investors were believed to have been switching out of Unilever's Amsterdam-listed shares and into the London stock.

News that electricity and water group United Utilities had held merger talks with National Power, the electricity generator, saw the shares climb 9 to 812p in spite of the company's rider that the talks had been aborted.

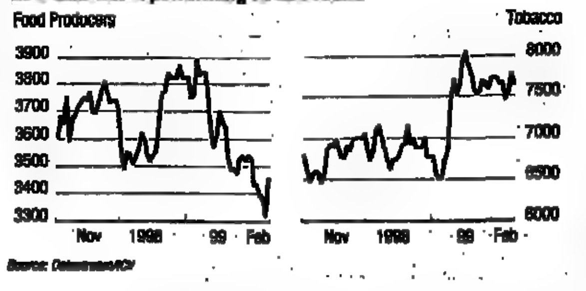
Analysts said it was the clearest signal so far that United wanted to do a deal and raised the question of what alternatives might open up.

Reuters Group fell 39¼ to 793½p on further consideration of Tuesday's figures, which were muddied by electronic delays. Reuters stressed that its figures appeared on its screens at the appointed time and delay in publication of the statement was down to the stock exchange's RNS service.

Packaging group Field raced up 12 to 356p after a counter bidder moved in and topped the 320p a share offered by US group Chesapeake. Shorewood (UK) launched an agreed 350p a share bid.

Best and worst performing FTSE sectors

Food Producers / Tobacco



Source: Datastream/ICV

FT 30 INDEX

	Feb 10	Feb 9	Feb 8	Feb 5	Feb 4	Yr ago	*High	*Low
FT 30	3540.1	3541.1	3584	3601	3629.1	3449.3	4004.9	2790.8
Ord. div. yield	2.97	2.86	2.93	2.92	2.88	3.13	4.22	2.72
P/E ratio net	22.61	22.65	22.88	22.97	23.25	22.69	25.41	15.80
P/E ratio nil	22.52	22.56	22.79	22.88	23.15	NA	25.18	15.71

FT 30 since compilation: high 4004.9 7/15/98; low 49.4 6/26/40. Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3541.1	3503.8	3513.3	3522.6	3511.7	3492.9	3503.5	3526.6	3542.1	3491.4

STOCK MARKET TRADING DATA

	Feb 10	Feb 9	Feb 8	Feb 5	Feb 4	Yr ago
SEAQ bargains	68,491	69,638	74,722	74,587	73,986	na
Equity turnover (£m)†	-	na	3862.4	4170.2	5298.2	na
Equity bargains†	-	na	66,606	64,651	64,046	na
Shares traded (m)†	-	na	1004.0	1109.8	1264.2	na
Total market bargains‡	-	78,972	na	na	74,053	-
Total turnover (£m)‡	-	4050.2	na	na	6294.0	-
Total shs traded (m)‡	*958.0	1222.5	na	na	1623.1	-
Tradepoint turnover (£m)	40.0	37.6	25.8	28.5	36.8	29.9
Tradepoint shs traded(m)	13.9	14.0	13.9	12.3	12.8	14.4

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	536	Total Highs	30	Total contracts	38,891
Total Falls	1,036	Total Lows	41	Calls	18,611
Same	1,279			Puts	20,280

Feb 10 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	5735.0	5774.0	+9.0	5785.0	5691.0	26632	168369
Jun	5754.0	5808.0	+8.5	5778.0	5754.0	225	18160
Sep	5811.0	5848.0	+8.8	5811.0	5811.0	1	1651

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	5164.5	5145.0	-33.0	5164.5	5144.5	4382	6885
Jun	5158.0	5156.0	-38.0	5158.0	5158.0	4365	300

FTSE 100 INDEX OPTION (LIFFE) (*5770) £10 per full index point Feb 10

	5600 C	5600 P	5650 C	5650 P	5700 C	5700 P	5750 C	5750 P	5800 C	5800 P	5850 C	5850 P	5900 C	5900 P	5950 C	5950 P
Feb	239	51½	204	66	169	81	137	101½	109	124½	84½	151	65	182	48½	216
Mar	395½	184½	325	202	296½	223	268½	248	237	265	208	296	184½	313½	163½	342½
Apr	438½	243	408½	254	377	284½	345½	308	314	327	282½	348½	253½	372½	230½	402
May	528	329½	494½	348½	463½	357½	432½	387	401½	407	370½	427	340	448	316½	476
Jun†	578½	373½			511½	414			463	454½			396	495½		

Calls 1,337 Puts 2,052

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point Feb 10

	5625 C	5625 P	5675 C	5675 P	5725 C	5725 P	5775 C	5775 P	5825 C	5825 P	5875 C	5875 P	5925 C	5925 P	5975 C	5975 P
Feb	216	57½	82	71½	159	88½	122	112	98½	135	78	162½	66	194	40½	228
Mar	335½	187½	304½	206	275	226½	248	247	218½	269	194½	295	171	321	148½	348½
Apr	426½	261	389	279	358	298	328½	318	301	339½	274½	363	249½	387½	226	412
Jun	564	394½			509	418½			443½	460			398	503½		
Sept	709	493			665½	536½			597½	575½			541½	616		

Calls 7,617 Puts 11,269 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998/9 High	1998/9 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	16.0	100	95	AIM VCT	100					
-	F.P.	[illegible]	95	85	Abbey Nat Debtn	[illegible]					
-	F.P.	36.0	125	110	BFS Cheas Inc	120		[illegible]			10.5
-	F.P.	[illegible]	100	95	Do Cap	98					
-	F.P.	10.0	100	90	China Brwd Dev VCT	100					
-	F.P.	38.8	74	7	Gaelic Frontier	[illegible]					
-	F.P.	4.9	100	94	Jupiter Enhanced	98					
-	F.P.	42.1	116	105	Do Zero Div Pf	100					
-	F.P.	10.0	100	100	Singer&Frid Oth VCT	100					
-	F.P.	27.6	97	85	Vectone II Inv	97					
-	F.P.	7.83	5	4	Do Cap	5					
-	F.P.	31.6	117	100	Do Zero Div Pf	116					
-	F.P.	104	95	95	Do Equity Units	95					

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1998/99 High	1998/99 Low	Stock	Closing price p	+or-
40	nil	29/2	1pm	1pm	Ambient Media	1pm	

Premium.

FTSE GOLD MINES INDEX

	Feb 10	% chg on day	Feb 9	Year ago	Gross div yield %	Total return	52 week High	52 week Low
Gold Mines Index (29)	933.07	-4.8	981.64	1123.11	1.98	936.88	1381.87	791.85
Regional Indices								
Africa (8)	1014.69	-2.3	1038.80	1192.06	4.12	1036.01	1496.04	798.63
Australasia (8)	1180.19	-1.4	1197.30	1379.94	2.84	1191.44	1650.83	818.83
Americas (11)	887.85	-7.0	932.86	1079.82	0.64	873.05	1317.41	697.89

 Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	£ Stlg Feb 10	Day's chge%	Euro Index	£ Stlg Feb 9	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5770.2	-0.2	6469.5	5779.9	5807.9	2.70	2.29	1.90	23.60	2.70	2555.88
FTSE 250	5157.6	-0.4	5782.8	5177.5	4991.8	3.25	2.81	2.18	18.06	8.39	2246.59
FTSE 250 ex Inv Tr	5196.0	-0.3	5825.7	5213.9	5016.4	3.39	2.82	2.21	16.76	8.43	2273.32
FTSE 350	2753.5	-0.2	3087.2	2759.1	2673.9	2.86	2.45	1.94	22.80	1.83	2493.32
FTSE 350 ex Inv Tr	2758.9	-0.2	3093.2	2763.9	2579.0	2.87	2.47	1.98	22.28	1.81	1281.45
FTSE 350 Higher Yield	2572.7	-0.3	2884.5	2579.8	2671.8	3.87	3.38	1.85	17.03	1.37	2000.24
FTSE 350 Lower Yield	2943.7	-0.1	3300.4	2947.8	2592.3	1.78	1.55	2.15	32.83	1.92	2158.82
FTSE SmallCap	2216.26	-0.3	2484.84	2221.96	2423.68	3.68	3.08	2.08	16.30	4.05	1951.05
FTSE SmallCap ex Inv Tr	2191.70	-0.2	2457.31	2195.07	2410.82	3.90	3.25	2.21	14.52	4.00	1961.37
FTSE All-Share	2665.16	-0.2	2988.15	2670.65	2604.95	2.90	2.49	1.95	22.09	1.75	2449.62
FTSE All-Share ex Inv Tr	2674.34	-0.2	2998.44	2679.22	2612.09	2.92	2.50	1.97	21.77	1.70	1264.74
FTSE Fledgling	1212.98	-0.4	1359.99	1218.11	1315.58	4.10	3.34	1.41	21.68	2.04	1368.22
FTSE Fledgling ex Inv Tr	1225.63	-0.4	1374.17	1230.04	1333.03	4.88	3.81	1.46	18.36	2.17	1390.33
FTSE All-Small	1256.55	-0.3	1408.83	1260.23	1372.01	3.77	3.11	1.93	17.19	2.28	1419.33
FTSE All-Small ex Inv Tr	1266.37	-0.2	1419.84	1268.84	1389.79	4.05	3.36	2.04	15.16	2.30	1441.32
FTSE AIM	824.4	-1.1	924.3	833.6	996.1	1.32	1.06	0.66	80.00†	0.61	767.16

FTSE Actuaries Industry Sectors

	£ Stlg Feb 10	Day's chge%	Euro Index	£ Stlg Feb 9	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(18)	3979.33	-1.1	4461.58	4021.62	4398.41	3.64	3.17	1.17	29.20	0.47	1857.21
12 Extractive Industries(6)	3062.93	+1.5	3434.13	3017.60	3087.14	4.43	4.08	2.06	13.73	3.75	989.28
15 Oil, Integrated(3)	4596.21	-1.4	5153.22	4659.86	4834.74	3.54	3.08	1.08	33.27	0.00	2205.44
16 Oil Exploration & Prod(9)	1354.62	+0.2	1518.79	1351.41	3338.65	4.11	3.59	0.97	31.36	0.00	848.32
20 GEN INDUSTRIALS(190)	1857.01	—	2082.06	1856.85	1982.10	3.74	3.31	2.31	14.45	2.35	1112.94
21 Construction(37)	1331.54	-0.5	1492.91	1338.24	1421.35	3.82	3.12	3.06	10.69	1.03	1308.97
22 Building Matls & Merchs(23)	1632.38	+0.2	1830.21	1628.33	1884.87	4.61	4.00	2.11	12.83	0.33	910.75
23 Chemicals(20)	1879.57	+1.1	2107.35	1859.76	2645.40	4.84	4.57	1.89	13.00	1.44	877.93
24 Diversified Industrials(4)	1058.75	-0.9	1187.06	1067.90	1353.51	6.19	5.46	1.08	18.69	5.35	675.34
25 Electronic & Elect Equip(25)	2836.04	+0.3	3179.74	2828.39	2134.27	2.69	2.30	1.99	23.30	0.07	1589.38
26 Engineering(53)	2327.64	-0.4	2609.73	2336.71	2666.87	3.61	3.18	2.38	14.57	6.56	1536.68
27 Engineering, Vehicles(10)	4113.59	-0.5	4612.12	4134.64	3507.10	2.18	2.90	3.23	17.77	0.35	2292.28
28 Paper, Pckg & Printing(18)	1721.04	+0.8	1929.62	1707.32	2037.14	6.07	5.64	2.36	8.72	2.42	796.07
30 CONSUMER GOODS(92)	5866.37	-0.2	6577.32	5875.76	5765.44	2.28	2.12	1.92	28.54	0.28	2346.48
32 Alcoholic Beverages(5)	3523.86	-0.4	3950.91	3538.58	3256.91	3.51	3.26	2.13	16.74	0.34	1412.78
33 Food Producers(26)	3453.51	+4.0	3872.04	3320.38	3550.12	2.60	2.25	2.28	21.09	0.10	1692.88
34 Household Goods & Texts(14)	2263.07	+0.2	2537.33	2258.22	3155.21	4.52	4.09	1.95	14.16	0.80	972.13
36 Health Care(14)	2404.79	-0.4	2696.23	2413.85	2327.41	2.14	1.98	2.10	27.78	1.39	1553.95
37 Pharmaceuticals(20)	10492.53	-1.1	11764.12	10609.00	10622.98	1.85	1.80	1.57	48.11	0.08	3781.09
38 Tobacco(3)	7636.65	-1.7	8564.60	7773.41	4869.09	4.11	3.75	2.23	13.61	0.00	2175.60
40 SERVICES(282)	3661.44	-0.3	4105.17	3670.64	3032.08	2.34	1.94	2.08	25.78	5.23	2039.92
41 Distributors(25)	1956.10	+1.5	2193.16	1926.78	2487.17	4.80	4.00	2.03	12.85	1.12	785.87
42 Leisure & Hotels(31)	3461.31	-0.6	3880.79	3482.95	3426.68	2.64	2.35	2.85	16.59	19.09	1989.47
43 Media(45)	4879.66	-0.1	5471.02	4882.42	4082.10	2.08	1.83	2.12	28.46	0.13	1865.18
44 Retailers, Food(13)	2649.93	+0.4	2971.07	2640.58	2794.46	3.44	2.77	2.17	16.74	4.19	1830.35
45 Retailers, General(41)	2117.65	-0.1	2374.29	2120.60	2387.56	3.53	2.84	2.06	17.17	5.33	1313.51
46 Telecommunications(7)	5848.27	-0.3	6330.54	5864.94	3277.54	1.59	1.31	1.58	49.83	4.13	2785.16
47 Breweries, Pubs & Rest.(22)	3654.77	-0.7	4097.69	3680.30	3729.72	3.44	2.80	2.20	16.48	12.60	1903.33
48 Support Services(69)	5054.24	-0.6	5666.76	5085.66	3930.97	1.23	1.06	2.83	35.84	1.48	3350.88
49 Transport(29)	3515.26	-0.2	3941.27	3522.90	3001.16	2.97	2.51	1.94	21.64	7.87	1590.72
60 UTILITIES(20)	4114.19	+0.6	4612.79	4088.52	3722.65	3.90	3.30	1.67	19.16	1.38	2002.42
62 Electricity(7)	4767.48	+1.3	5345.22	4707.58	4180.21	4.23	3.45	1.71	17.24	0.00	2847.97
64 Gas Distribution(2)	3163.36	+0.1	3546.73	3161.60	2824.06	2.14	1.71	‡	‡	0.00	1843.93
68 Water(11)	3335.52	-0.1	3739.76	3337.93	3245.85	5.02	4.63	2.38	10.48	4.52	2105.95
69 NON-FINANCIALS(592)	2753.30	-0.2	3086.98	2759.89	2574.75	2.79	2.42	1.89	23.75	2.25	2273.97
70 FINANCIALS(120)	4899.34	—	5493.09	4899.35	5454.62	3.34	2.77	2.18	17.18	0.27	2294.42
71 Banks, Retail(12)	7209.73	+0.4	8083.48	7181.52	6047.44	3.55	2.85	2.14	16.42	0.00	2556.04
73 Insurance(21)	2143.85	-0.7	2403.66	2158.88	2425.52	3.09	2.93	2.04	19.80	0.12	1797.64
74 Life Assurance(6)	7152.68	-1.0	8019.51	7222.55	7008.07	2.69	2.33	2.70	17.00	0.00	3224.39
77 Other Financial(31)	3749.64	-0.7	4204.06	3775.32	4111.25	2.95	2.47	2.55	16.58	0.87	2316.80
79 Property(48)	1789.44	+0.4	2006.30	1782.01	2344.30	3.49	2.97	1.61	22.32	1.01	1193.21
80 INVESTMENT TRUSTS(117)	3630.32	-1.0	4070.28	3668.45	3636.98	2.30	1.92	1.15	46.98	4.68	1337.10
89 FTSE All-Share(829)	2665.16	-0.2	2988.15	2670.65	2604.95	2.90	2.49	1.95	22.09	1.75	2449.62
105 FTSE All-Share ex Inv Tr(712)	2674.34	-0.2	2998.44	2679.22	2612.09	2.92	2.50	1.97	21.77	1.70	1264.74
Information Technology	1749.75	-0.7	1960.68	1761.60	1188.20	0.83	0.44	4.53	52.21	0.83	1758.68

Hourly movements

	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	5779.6	5727.6	5740.3	5747.0	5731.4	5698.2	5719.4	5761.9	5781.8	5697.7
FTSE 250	5165.6	5159.3	5158.3	5159.1	5157.1	5150.7	5143.0	5147.5	5168.9	5138.8
FTSE 350	2757.9	2736.5	2741.5	2744.2	2737.9	2724.0	2731.9	2749.3	2758.5	2723.9
FTSE SmallCap	2218.20	2217.05	2217.46	2217.09	2217.10	2216.34	2215.99	2216.13	2218.47	2215.50
FTSE All-Share	2668.38	2649.61	2654.24	2656.70	2650.86	2638.02	2645.21	2661.31	2669.94	2637.94

Time of FTSE 100 Day's High: 09:04:00 Day's low: 13:57:00. FTSE 100 1998 High: 6179.0 (10/02/99) Low: 4648.7 (10/02/98)
Time of FTSE All-Share Day's high: 9:04:00 Day's low: 14:01:00. FTSE All-Share 1998 High: 2865.20 (20/07/98) Low: 2165.07 (05/10/98)

Further information is available on http://www.ftse.com.

 † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative. Deletions: Abbott Mead Vickers (FTSE 250); Rotork (FTSE SmallCap); Addition: Rotork (FTSE 250); PLEASE NOTE: Amendments to indices from 4/2/99 to 9/2/99 inclusive applied to Total Return and Xd adj. ytd for sector 26 (Engineering) and related indices.

FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks yesterday

	Vol 000's	Closing price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for the FTSE 100 constituents and a selection of other stocks traded through the SEAQ system yesterday until 4.30pm.

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Feb 10) 1 € = 13.7603 Sch

BELGIUM/LUX (Feb 10) 1 € = 40.3399 Frs.

FINLAND (Feb 10) 1 € = 5.94573 Mka

FRANCE (Feb 10) 1 € = 6.55957 Frs.

GERMANY (Feb 10) 1 € = 1.95583 Dm.

IRELAND (Feb 10) 1 € = 0.78756 Punt

ITALY (Feb 10) 1 € = 1936.27 Lira

NETHERLANDS (Feb 10) 1 € = 2.20371 Fl.

PORTUGAL (Feb 10) 1 € = 200.482 Esc.

SPAIN (Feb 10) 1 € = 166.386 Pta.

EUROPE (NON-EMU)

CZECH REP (Feb 10 / Koruna)

DENMARK (Feb 10 / Kr)

GREECE (Feb 10 / Drachma)

NORWAY (Feb 10 / Kroner)

POLAND (Feb 10 / Zloty)

SWEDEN (Feb 10 / Kronor)

SWITZERLAND (Feb 10 / Frs.)

TURKEY (Feb 10 / Tk Lira)

PACIFIC

JAPAN (Feb 10 / Yen)

AUSTRALIA (Feb 10 / Aus$)

HONG KONG (Feb 10 / H.K.$)

INDONESIA (Feb 10 / Rupiah)

MALAYSIA (Feb 10 / MYR)

NEW ZEALAND (Feb 10 / NZ $)

SINGAPORE (Feb 10 / S$)

SOUTH KOREA (Feb 10 / Won)

TAIWAN (Feb 10 / TW$)

THAILAND (Feb 10 / Baht)

AFRICA

SOUTH AFRICA (Feb 10 / Rand)

AMERICAS

CANADA

TORONTO (Feb 10 / Can $)
4 pm close

MONTREAL (Feb 10 / Can $)
4 pm close

MEXICO (Feb 10 / Peso)
12.30 pm

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY FEBRUARY 9 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY FEBRUARY 8 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	214.94	-0.8	194.67	155.40	219.04	220.57	-0.3	3.33	218.75	196.82	155.79	221.88	221.23	219.86	163.86	209.76
Austria (21)	178.35	0.9	161.54	128.95	160.38	160.38	0.5	2.07	176.88	160.44	126.99	158.50	158.50	253.73	165.27	200.33
Belgium (22)	399.23	-1.2	361.58	288.65	351.49	351.49	-1.7	1.92	404.15	367.00	290.49	357.43	357.43	446.95	273.20	273.48
Brazil (29)	106.28	-2.3	96.24	76.83	108.29	372.80	-0.7	8.23	108.75	98.75	78.17	111.33	375.33	268.34	88.32	233.07
Canada (113)	205.07	-2.6	185.73	148.27	208.96	221.85	-2.2	1.79	210.60	191.24	151.37	215.59	226.78	248.78	159.94	217.06
Denmark (34)	469.96	0.2	425.65	339.79	478.93	420.45	-0.3	1.67	469.11	425.99	337.18	480.23	421.74	537.33	420.12	461.49
Finland (29)	593.97	-2.4	537.96	429.44	655.92	655.92	-2.8	1.78	608.26	552.35	437.20	674.74	674.74	661.25	312.12	312.12
France (73)	321.60	-2.0	291.27	232.52	292.85	292.85	-2.4	2.14	328.11	297.95	235.84	300.14	300.14	354.45	248.64	251.44
Germany (55)	263.50	-1.8	238.65	190.51	237.11	237.11	-2.2	1.39	268.30	243.64	192.85	242.53	242.53	325.61	228.35	244.51
Greece (36)	403.06	-3.0	365.07	291.43	410.77	824.56	-3.3	1.04	415.34	377.17	298.54	425.19	852.90	418.59	211.47	–
Hong Kong, China (66)	273.78	1.1	247.96	197.94	279.00	272.38	1.1	4.45	270.93	246.03	194.74	277.35	269.55	362.55	198.64	352.13
Indonesia (24)	48.35	2.1	43.79	34.96	49.27	287.02	0.9	1.17	47.37	43.02	34.05	48.50	258.65	64.52	19.04	54.20
Ireland (14)	536.69	-1.1	486.09	388.03	527.09	527.09	-1.5	1.81	542.62	492.74	390.02	535.32	535.32	605.86	396.15	445.54
Italy (53)	158.50	-2.4	143.56	114.60	202.85	202.85	-2.9	1.37	162.44	147.51	116.76	208.82	208.82	162.64	128.66	138.51
Japan (445)	98.79	-1.2	89.48	71.43	100.68	71.43	-0.6	1.04	100.00	90.81	71.88	102.37	71.88	108.73	76.83	108.73
Mexico (29)	1133.61	-1.4	1026.72	819.61	1155.25	12487.22	-1.6	2.05	1150.27	1044.53	826.78	1177.52	12690.59	1733.73	787.15	1583.38
Netherlands (26)	487.16	-1.4	441.22	352.22	433.63	433.63	-1.8	2.18	493.61	448.42	354.94	441.55	441.55	582.73	394.32	424.00
New Zealand (18)	66.16	-1.7	59.92	47.84	67.42	63.20	-1.2	4.82	67.33	61.15	48.40	68.93	63.95	77.84	45.88	75.64
Norway (37)	236.53	-1.7	214.23	171.01	241.05	245.60	-2.0	2.34	240.69	218.57	173.00	246.39	250.62	357.71	181.86	299.41
Philippines (22)	83.58	-1.3	75.70	60.43	85.17	164.52	-1.0	0.99	84.67	76.88	60.86	86.67	166.25	108.96	42.48	88.31
Portugal (18)	254.68	-1.2	230.67	184.14	309.29	309.29	-1.7	1.06	257.81	234.11	185.31	314.51	314.51	288.39	194.13	–
Singapore (40)	189.40	-3.2	171.54	136.94	193.01	147.88	-3.1	1.92	195.70	177.71	140.66	200.34	152.40	246.74	102.45	217.16
South Africa (35)	195.26	-3.1	176.85	141.17	198.99	260.55	-0.8	3.40	201.45	182.93	144.80	206.23	262.78	346.20	151.55	281.38
Spain (30)	373.06	-1.0	337.91	269.74	416.19	416.19	-1.5	1.94	376.91	342.27	270.92	422.36	422.36	435.19	290.81	299.24
Sweden (43)	528.00	-1.7	478.22	381.75	538.06	615.90	-1.9	1.80	536.93	487.58	385.93	549.66	627.78	628.19	378.18	490.09
Switzerland (30)	392.24	-1.2	355.25	283.59	399.73	344.50	-1.5	1.24	397.05	360.55	285.39	406.45	349.81	441.85	307.73	371.13
Thailand (31)	19.20	-5.8	17.39	13.88	19.57	27.67	-5.3	3.19	20.39	18.52	14.66	20.87	29.22	33.84	8.15	30.69
United Kingdom (201)	369.14	-0.6	334.33	266.89	376.18	334.33	-0.9	2.92	371.45	337.31	266.99	380.25	337.31	401.84	307.96	358.48
USA (613)	501.75	-2.2	454.44	362.77	511.33	501.75	-2.2	1.30	513.19	466.02	368.87	525.36	513.19	527.72	390.12	412.52
Americas (784)	445.46	-2.2	403.48	322.09	453.99	378.14	-2.2	1.34	455.69	413.81	327.54	466.49	386.72	467.90	347.59	373.89
Europe (722)	346.45	-1.3	313.78	250.49	353.06	321.58	-1.7	2.11	351.04	318.77	252.32	359.36	327.03	386.24	282.63	308.84
Eurobloc (341)	99.84	-1.7	90.52	72.26	97.34	97.94	-2.2	1.78	101.72	92.37	73.11	99.52	99.52	113.92	81.53	–
Nordic (143)	501.27	-1.6	454.00	362.42	510.83	506.57	-1.9	1.84	509.22	462.41	366.02	521.29	516.34	555.97	360.04	429.70
Pacific Basin (721)	108.20	-1.0	98.19	78.78	108.23	79.81	-0.5	1.58	107.32	97.45	77.14	109.86	80.02	119.48	82.88	118.20
Euro-Pacific (1443)	206.03	-1.2	186.60	148.96	209.96	170.50	-1.3	1.95	208.59	189.42	149.93	213.54	172.80	221.79	166.00	198.06
North America (726)	481.73	-2.2	436.31	348.30	490.93	482.45	-2.2	1.32	492.79	447.50	354.21	504.47	493.45	506.43	374.92	400.00
Europe Ex. UK (521)	323.34	-1.6	292.85	233.77	329.51	305.55	-2.0	1.70	328.74	298.52	236.29	336.53	311.95	366.22	260.93	277.81
Europe Ex. Eurobloc (381)	94.63	-0.8	85.69	68.56	96.84	95.11	-1.1	2.44	95.65	86.86	68.75	97.91	96.19	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (180)	96.50	-1.3	87.40	69.77	98.34	93.89	-1.6	1.45	97.79	88.80	70.29	100.11	95.45	109.21	75.16	–
Pacific Ex. Japan (276)	178.42	-0.4	161.60	129.00	181.83	179.90	-0.1	3.83	179.08	162.62	128.72	183.33	180.05	216.04	128.26	207.22
World Ex. Eurobloc (1921)	103.40	-1.8	93.65	74.76	105.38	101.97	-1.8	1.59	105.32	95.63	75.70	107.81	103.80	108.05	83.09	–
World Ex. US (1849)	205.31	-1.3	186.19	148.59	209.43	175.53	-1.4	1.98	208.24	189.10	149.66	213.17	177.95	221.91	165.86	201.09
World Ex. UK (2061)	294.42	-1.9	266.66	212.87	300.04	283.37	-1.9	1.47	300.24	272.64	215.80	307.35	288.57	311.48	236.11	280.86
World Ex. Japan (1817)	401.46	-1.9	363.60	290.25	409.12	393.35	-2.0	1.68	409.11	371.51	294.06	418.80	401.23	427.99	320.58	349.40
The World Index (2262)	300.88	-1.8	272.51	217.54	306.63	289.98	-1.8	1.62	306.41	278.25	220.24	313.67	274.99	318.51	242.38	258.96

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Emerging markets: IFC investable indices

Dollar terms

Feb 9 Market		Day's chg %	% Chg since 31/12/98
Latin America			
Argentina	749.44	-1.4	-8.0
Brazil	218.67	-2.6	-20.5
Chile	453.02	+1.2	+8.4
Colombia[1]	343.07	+1.4	-21.9
Mexico	479.35	-1.3	-0.5
Peru[2]	130.03	+0.2	-1.0
Venezuela[3]	380.69	+0.1	-16.0
East Asia			
China[4]	22.85	+4.2	-13.5
India[5]	67.27	+0.9	+4.8
Indonesia[6]	22.47	+2.0	-7.2
Korea[7]	48.95	-4.0	-7.8
Malaysia	85.02	+5.0	-3.3
Pakistan[8]	81.75	+2.1	-13.8
Philippines	115.26	-1.2	-6.4
Sri Lanka[9]	73.32	+0.2	-11.0
Taiwan, China[6]	107.00	-1.8	-7.6
Thailand	54.76	-4.3	-13.3
Europe			
Czech Rep	43.16	-3.1	-15.0
Greece	719.52	-2.9	+16.2
Hungary[10]	283.61	-1.4	+1.1
Poland[11]	543.28	+0.7	+3.7
Portugal	280.04	-1.2	-1.0
Russia	24.78	+6.7	+5.7
Slovakia	45.71	+1.1	+4.8
Turkey[12]	154.52	+5.0	+5.6
Mideast/Africa			
Egypt	75.60	-1.8	+17.4
Israel	101.00	-0.1	-1.2
Jordan	227.02		+4.8
Morocco	172.76	-0.4	+3.1
S Africa[13]	133.28	-3.2	+6.4
Zimbabwe[14]	105.86	-2.7	+0.5
Regions			
Composite	181.78	-1.4	-2.7
Latin America	384.85	-1.1	-8.3
Asia	99.05	-1.7	-7.4
EMEA	121.10	-1.5	+8.0
Europe	159.41	-0.6	+8.4
Eastn Europe	98.74	+0.6	+1.0
ME & Africa	58.53	-2.4	+5.4
Comp + Malay	184.38	-1.0	-2.7
Asia + Malay	100.96	-0.4	-6.6

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 5 1993; (6)Jan 4 1991; (7)Jan 6 1992; (8)Mar 28 1991; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 7 1993
Latest indices were unavailable for this edition.

4 pm close February 10

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

1998/99 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Quote	Chng Prev. Close
126	68½	Xerox	1.60	1.4	23	16819	118½	113¼	118½	[illegible]
83⅝	58⅛	XI Cap$ x	1.76	2.9	9	1631	61¼	60¼	60⅝	[illegible]
66⅛	37½	Xtra Corp			9	407	38[illegible]	d37½	38[illegible]	[illegible]
31⅞	22½	Yankee Egy	1.36	5.4	22	53	25	25⅛	25⅛	[illegible]
52¼	27½	York Int	0.48	1.3	20	1215	37¼	36⅛	36½	[illegible]
24[illegible]	6⅛	Zapata			3	903	9¾	9½	9⅝	
50	31	Zeneca	0.80	1.9	33	2031	42[illegible]	41⅝	42	[illegible]
30½	20[illegible]	Zenith Nat x	1.00	4.5	16	281	22½	22[illegible]	22[illegible]	[illegible]
8[illegible]	5[illegible]	Zenix Inc	0.70	11.4		165	6⅛	6	6⅛	[illegible]
14[illegible]	8⅞	ZweigFd$	1.06	10.5		704	10[illegible]	10⅛	10[illegible]	
9[illegible]	8⅛	Zweig Tot x	0.84	10.0		762	8[illegible]	8[illegible]	8⅝	[illegible]

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

¤ Dealings suspended.

مكبرا من الاصل

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Feb 9	Feb 8	Feb 5	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Industrials	9133.03	9291.11	9304.24	9643.32 (8/1/99)	7539.07 (31/8/98)	9643.32 (8/1/99)	41.22 (8/7/32)
Home Bonds	105.80	105.87	105.89	107.17 (9/12/98)	104.42 (11/5/98)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3155.14	3209.25	3247.08	3686.02 (16/4/98)	2345.00 (9/10/98)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	298.72	298.06	303.80	328.51 (6/10/98)	262.66 (9/1/98)	328.51 (6/10/98)	10.50 (8/7/32)

DJ Ind. Day's high 9361.92 (9427.93) Low 9078.13 (9148.99) (Theoretical)
Day's high 9305.02 (9334.86) Low 9128.20 (9208.24) (Actual)

Standard and Poors	Feb 9	Feb 8	Feb 5	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Composite‡	1216.14	1243.77	1239.40	1279.64 (29/1/99)	927.69 (8/10/98)	1279.64 (29/1/99)	4.40 (1/6/32)
Industrials¶	1477.28	1514.83	1506.44	1551.66 (29/1/99)	1077.40 (8/10/98)	1551.66 (29/1/99)	3.52 (30/6/32)
Financial¶	123.72	125.41	126.27	147.88 (14/7/98)	95.80 (8/10/98)	147.88 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	576.62	588.84	587.20	611.66 (8/1/99)	477.20 (8/10/98)	611.66 (8/1/99)	4.64 (25/4/42)
Amex Comp.	692.34	702.90	706.28	753.67 (22/4/98)	583.75 (8/10/98)	753.67 (22/4/98)	524.28 (16/7/98)
NASDAQ Cmp	2310.78	2404.92	2373.62	2510.09 (1/2/99)	1419.12 (8/10/98)	2510.09 (1/2/99)	54.87 (3/10/74)
Russell 2000	403.13	411.30	412.72	491.41 (21/4/98)	310.28 (8/10/98)	491.41 (21/4/98)	123.38 (7/12/93)

RATIOS

	Feb 5	Jan 29	Jan 22	Year ago
Dow Jones Ind. Div. Yield	1.65	1.64	1.67	1.69
	Feb 3	Jan 27	Jan 20	Year ago
S & P Ind. Div. yield	1.10	1.12	1.12	1.43
S & P Ind. P/E ratio	38.55	38.57	38.80	27.31

US DATA

MARKET ACTIVITY

● Volume (million)	Feb 9	Feb 8	Feb 5
NYSE	736.000	708.870	872.030
Amex	28.737	33.851	28.286
NASDAQ	915.080	867.100	1019.59

NYSE	Feb 9	Feb 8	Feb 5
Issues Traded	3,361	3,385	3,325
Rises	[illegible]	1,405	1,169
Falls	2,008	1,881	1,779
Unchanged	[illegible]	[illegible]	[illegible]
New Highs	18	25	25
New Lows	65	80	62

NYSE TRADING ACTIVITY — Volume : 736,000,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
AmOnLine	11,134,100	147¾	−11⅛
Citigrp	10,003,200	91⅛	−1¼
Compaq	8,853,000	42⅛	−2¼
LucentTch	8,127,800	95¾	−4⅜
WellsF	7,322,500	35¾	−1⅛
MicronTech	6,499,300	65¾	−7⅛
AT&T	6,415,700	87¼	−4⅜
ServiCp	6,140,700	16⅛	−¾
BellSth	5,738,800	44⅝	+⅛
Healthsth	5,137,500	13¾	−⅛

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Valley Ind	13	+1½	+13.0
Achtar	12¾	+¾	+6.1
Premark	31⅝	+1⅞	+6.0
Bancorp	22	+1¼	+6.0
Downs			
HlthOrRe	27⅝	−5¾	−17.3
MicronTech	65¾	−7⅛	−9.9
Tyler	65¾	−6¾	−9.1
Cub Stores	30¾	−3¼	−8.7

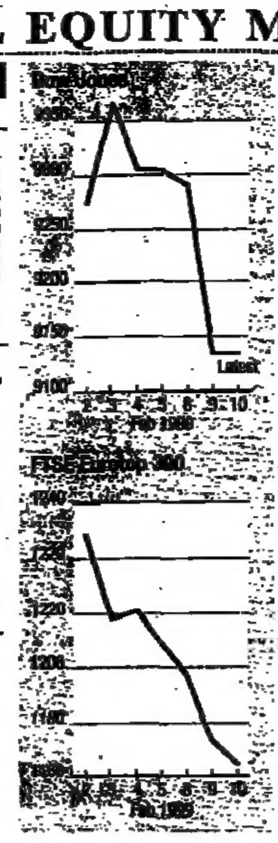
NASDAQ TRADING ACTIVITY — Volume : 915,080,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
DellComp	26,589,500	87⅞	−6¼
CiscoSys	20,977,800	95⅝	−6
Intel	20,079,400	125⅛	−6⅞
Microsft	19,267,300	160⅛	−5⅛
Lycos	15,043,000	94¼	−33
AppleC	13,858,800	63¾	−4⅛
MCIWcm	12,344,700	76¾	−2⅛
Yahoo	10,287,700	140⅝	−17⅝
SunMic	9,596,300	97⅝	−6¾
USAWeb	9,418,200	41¾	+3⅜

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
K Swiss	42⅝	+7¾	+22.7
SBA Spe	18¾	+1¾	+10.4
Aamed	11	+1	+10.0
USAWeb	41¾	+3⅜	+8.7
Downs			
Lycos	94¼	−33	−25.9
CorEFS	25¾	−7	−21.5
CNET	98⅝	−25¼	−20.7
AmeriTrade	85⅛	−14⅞	−14.7



JAPAN

	Feb 10	Feb 9	Feb 8	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Nikkei 225	13852.40	13902.85	13992.49	17264.3	12880	38915.9	85.25

Day's high: 13971.15, Day's low: 13795.61.

TOKYO TRADING ACTIVITY — Volume : 423,330,000

[illegible]

GERMANY

	Feb 10	Feb 9	Feb 8	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DAX	4798.82	4904.35	5027.22	6171.43	3896.08	6171.43	931.18

Day's high: 4848.44. Day's low: 4749.45.

FRANKFURT TRADING ACTIVITY — Volume : [illegible]

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Bayer	881,402	37	−0.7
Commbk	800,580	25.5	−0.3
DaimCh	551,802	85	−0.8
Dt Bk	480,543	47.75	−0.7
Lufthn	478,191	18.85	−0.45
Dt Tel	446,183	34.8	−2.2
Siemens	442,415	59.7	−1.4
DresdBk	411,905	31.1	−1.9
BASF	385,364	30.7	−0.8
Mannesm	257,546	107.9	−3.1

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Mbdig	17.7	+1.1	+6.6
Kleist	41.4	+1.8	+4.5
Drpak	12.5	+0.5	+4.2
Jenoptk	17.1	+0.5	+3.0
Downs			
Dougls	40	−4	−9.1
Praeng	430	−30	−6.5
Metall	34	−2.25	−6.2
GEA Pf	18.5	−1.25	−6.0

FRANCE

	Feb 10	Feb 9	Feb 8	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
CAC 40	4001.83	4038.49	4154.02	4388.48	2862.54	4388.48	964.91

Day's high: 4035.55. Day's low: 3984.86.

PARIS TRADING ACTIVITY — Volume : 659,385,418

[illegible]

UK

	Feb 10	Feb 9	Feb 8	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
FTSE 100	5770.2	5779.9	5834.9	6179	4648.7	6179	986.9

Day's high: 5781.8. Day's low: 5667.2.

LONDON TRADING ACTIVITY — Volume : 952,058,600

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Tomkins	22,009,940	237¾	
Asda	18,763,110	154¾	+2¾
Tesco	17,800,350	181¾	+1
BSkyB	17,087,990	474½	+60½
Vodafone	16,141,520	1084	+7
Shell T&T	15,384,900	338¼	−2¼
BTR Siebe	15,063,140	229¾	+¾
Unilever	13,595,250	582½	+38½
Standa	13,535,840	154	−3¼
BAE	13,425,710	344	−2¾

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Eclipse Blind	67½	+30	+80.2
Surrey Grp.	¼	+¼	+50
Redstone	40	+8½	+27.0
Nord Anglia	246½	+37	+17.4
Downs			
Key Soft.	12	−4½	−27.3
10 Group	1	−¼	−20
Sabire	8¼	−1¼	−13.2
Clinical Cmp	36	−5	−12.2

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Mar	1217.70	1216.00	−3.00	1231.50	1215.50	88,525	392,480
Jun	1229.50	1226.50	−4.00	1242.50	1226.50	655	8,672

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	13840.0	13960.0	+100.0	13990.0	13790.0	27,995	184,781
Jun	13780.0	13820.0	+100.0	13820.0	13880.0	84	33,738

Open interest figures for previous day.

CAC-40 (20F x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Feb	3980.0	4007.0	−30.0	4036.0	3967.0	71,121	117,480
Mar	3996.0	4014.5	−38.5	4037.5	3981.0	1,256	82,502
DAX							
Mar	4860.0	4825.0	−34.0	4874.0	4753.0	67,481	197,100
Jun	4884.0	4853.0	−38.5	4890.0	4781.0	3,282	58,904

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Feb	712.00	701.00	−15.00	712.00	690.00	44,363	154,804
Mar	705.50	701.25	−12.25	707.00	699.00	1,339	2,081
EUREX							
Mar	6877.0	6877.0	−63.0	6968.0	6811.0	31,304	134,310
Jun	6809.0	6823.0	−63.0	6848.0	6783.0	247	3,870

WORLD MARKETS AT A GLANCE

Country	Index	Feb 10	Feb 9	Feb 8	1998/99 High	1998/99 Low	☆ Yield	☆ P/E
Argentina	General	16370.73	16587.35	16525.90	23483.58 23/3/98	12303.10 10/9/98	4.16	12
Australia	All Ordinaries	2854.8	2890.7	2900.0	2940.50 4/2/99	2458.29 1/9/98	3.02	22.6
	All Mining	578.7	593.7	591.3	712.10 23/4/98	488.80 31/8/98		

Broadly lower in sympathy with overnight falls in US. CBA up against trend after announcing share buyback with interims.

Country	Index	Feb 10	Feb 9	Feb 8	1998/99 High	1998/99 Low	☆ Yield	☆ P/E
India	BSE Sens.	3207.49	3207.71	3183.84	4280.96 21/4/98	2764.35 20/10/98		
	S & P CNX 500	864.22	842.20	838.44	816.82 21/4/98	557.69 20/10/98	na	na

Shares pushed strongly higher as traders began the countdown to the February 27 budget.

Country	Index	Feb 10	Feb 9	Feb 8	1998/99 High	1998/99 Low	☆ Yield	☆ P/E
Indonesia	Jakarta Comp.	386.08	402.83	399.69	554.10 2/2/98	256.83 21/9/98	2.5	19.7

Drifted lower in very thin turnover with little to inspire investors.

Country	Index	Feb 10	Feb 9	Feb 8	1998/99 High	1998/99 Low	☆ Yield	☆ P/E
Portugal	BVL 30	4920.22	4936.97	5012.52	8170.99 22/4/98	3586.08 2/10/98	2.03	27.8
	PSI 20	11385.79	11408.79	11585.85	14280.00 22/4/98	8814.51 2/10/98		
Russia	RTS	62.98	58.04	56.60	411.91 5/1/98	38.53 5/10/98	na	na

Pushed higher for the second day running in the best volume since last August.

[illegible]

THE NASDAQ-AMEX MARKET GROUP

4 pm close February 10

[illegible]

AMEX

4 pm close February 10

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EASDAQ

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STOCK MARKETS

Wall Street gravity weighs investors down

WORLD OVERVIEW

The overnight pullback on Wall Street, when high-flying cyberstocks kept an overdue appointment with gravity, made for another cautious day of low volume trade in many Asian and European markets, *writes Michael Morgan.*

Some late buying in Asia enabled Tokyo, Seoul and Taipei to finish with their heads above water.

However, trade in Tokyo was restrained ahead of a public holiday today and growing expectations that tomorrow's Bank of Japan policy meeting could result in easier monetary policy.

Indeed, the prospect of lower Japanese interest rates has been fuelled in recent days by reports that the US was urging Japan to ease its stance.

Moreover, Washington was said to be willing to accept the trade consequences of a weaker yen.

The European bourses made a weak start and largely failed to capitalise on Wall Street's early bounce. Frankfurt gave ground for a third consecutive day, as figures from leading retailer Metro confirmed severe weakness in German consumer spending.

Nonetheless, news that German exports had fallen 2.7 per cent in December was eagerly seized upon by optimists as improving the chances that the European Central Bank would cut interest rates this year.

Against the trend, Milan and Madrid managed to reverse early losses to end in positive territory. But in both markets, the improvement seemed the result of a scramble to cover short positions in the face of Wall Street's gains, rather than any fundamental change of view.

Meanwhile, BT Alex Brown asked the question yesterday whether, after a 22 per cent outperformance by growth stocks over value stocks last year, the time was now right to switch.

James Montier, global strategist, argued that policy makers in Europe and Japan "are still snoring in catatonic slumber, apparently in ignorance of the risks to growth and deflation".

Such policy inaction screamed for concentration in growth stocks. However, the dramatic steepening of the Japanese yield curve complicated the call, he said.

Although the rise in the long bond yield was a reflection of fears of chronic oversupply rather than reflation, it had still led to a bounce in value stocks.

This suggested that interest rates might be the single most important determinant of the value growth split.

Mr Montier added that in the US, the case was less clear although value shares seemed due for at least a short-term bounce.

High-techs lose footing in early rally

AMERICAS

A morning scramble higher by high-tech shares lost its footing by midday as investors continued to trade cautiously on Wall Street, *writes John Labate in New York.*

The Dow Jones Industrial Average was 10.04 higher by early afternoon at 9,143.07. The broader Standard & Poor's 500 index was 3.81 higher at 1,219.95. Stronger semiconductor shares helped raise sentiment briefly before sellers stepped in, sending the Nasdaq composite index off its high for the morning but still 2.0 higher at 2,312.79.

But there were disturbing signs despite the pick-up in the leading indices. "There's continued ugliness in the Russell 2000," said Bill Meehan, chief market analyst at Cantor Fitzgerald. "The volume is again pathetic and there's still too much complacency here."

Market breadth remained negative on the New York Stock Exchange by a margin of 17 to 10. In addition, small-company shares pulled back strongly, sending the Russell 2000 index down 4.59 or 1.14 per cent to 398.54.

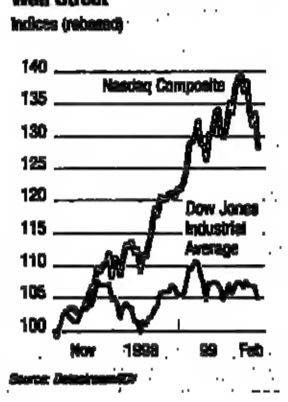
Putting some pressure on the technology sector was the greeting given the latest computer-related takeover, of internet company Lycos by USA Networks. A day after Lycos shares plunged more than 25 per cent, they tumbled another 11.6 per cent to $83 9/16 after CS First Boston lowered its rating.

Other internet stocks were mixed, with Amazon.com down $1⅞ to $98¼ in the face of controversy surrounding its policy of book recommendations.

AMR, parent of American Airlines lost $⅛ at $55⅝ as the company announced as many as 900 flights would be cancelled for the day due to its continuing dispute with pilots.

Among Dow member shares, Philip Morris lost more than 7 per cent to $41⅞

Wall Street
Indices (rebased)



Source: Datastream/ICV

after a jury in California found the company liable in a tobacco case.

TORONTO was trading slightly lower at midsession, dragged down by weakness in financial and internet stocks. The TSE 300 index was down 16.97 to 6,427.

Selling by retail funds pushed high-tech stocks further down after Tuesday's losses. On-line auctioneer Bid.Com International was 45 cents lower to C$5.85.

Feeble bank stocks weighed heavily on the market, with the financial subindex trading 0.6 per cent lower. Canadian Imperial Bank of Commerce was down 70 cents to C$35.25.

Imperial Oil, up 50 cents to C$22.50, turned in a positive performance, boosted by higher oil prices.

Brazil investors await currency developments

Latin America traded narrowly in low volumes as investors awaited currency and political developments.

SAO PAULO mirrored the broad trend in the region, showing little change at midsession after the volatility of the past two days when the Bovespa index fell first 4.6 per cent then 1.7 per cent. The benchmark was off 9.0 at 6,665 at midsession.

CARACAS edged lower in early trading as reluctant investors gave only a neutral welcome to the economic package announced late on Tuesday.

The IPC index shed 5.57 to 4,163.35 at midsession.

MEXICO followed the downward trail of Wall Street and São Paulo, with the IPC index 18.98 lower to 3927.96 midsession.

Downgraded retailer sold off

EUROPE

German equities fell to their lowest level for almost two months after FRANKFURT tumbled 36.63 to 4,814.04 on the Xetra Dax index for a two-day decline of 5.5 per cent.

The Dax is now 22 per cent short of last July's peaks. Part of the blame lay yesterday with a 4 per cent decline at Metro, which ran into a swathe of broker downgrades after a disappointing trading statement.

The top retailer turned a 4.8 per cent gain in adjusted sales for 1998, but the final-quarter figures fell short of the broad numbers that most analysts had pencilled in. The shares fell to a session low of €61.80 before closing at €63.90, down €2.80.

The sector streamed lower in sympathy. Karstadt ended €18 lower at €332.

Deutsche Telekom, the market heavyweight, came off €1.66 at €34.44 and there was further weakness in financials where Munich Re lost €5.60 at €196, a setback of 10 per cent in two days.

AMSTERDAM ended 5.57 lower at 512.49 on the AEX index with a steep fall for Philips and more weakness among financials offsetting a rally at Unilever.

Philips was swept lower by the overnight tech shakeout on Wall Street, giving up €1.55 or 2.4 per cent at €62.90. Baan lost 35 cents at €8.05 and ASM Lithography shed €1.75 at €39.25.

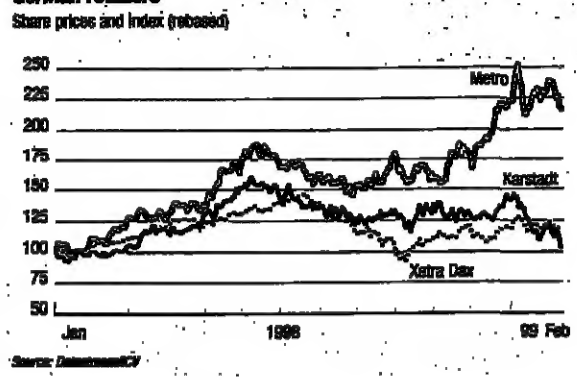
In contrast, food and detergent giant Unilever rose €1.40 to €63.40 after a number of brokers were said to have turned more positive following the shares' recent relative weakness. Office equipment leader Buhrmann gained 2.7 per cent, adding 40 cents to €15.30.

Among financials, Aegon lost €2.55 at €89.10 and Fortis €1 at €33.10.

PARIS rebounded on the back of the strong start on Wall Street, with the CAC 40 closing 36.56 lower to 4,001.93 after spending most of the day below the 4,000 mark.

Eridania Béghin-Say lost €6.50 or 4.8 per cent to

German retailers
Share prices and index (rebased)



Source: Datastream/ICV

€128.10 on disappointing 1998 sales figures, whereas Promodès gained €7 to €595 after posting 1998 sales up 16.3 per cent.

Cyclicals ended their two-day rally after investors took profits. Lafarge lost €2.40 to €80.10 while Usinor slid 40 cents to €12.19 and Péchiney shed €1 to €32.

Société Générale and Paribas were up about 3 per cent in early trading after rumours of a counter-bid for Paribas by an Axa-led consortium. But the stocks fell back from their highs after Axa poured cold water on the speculation. Paribas gained €1.20 to €83.85; SocGen rose €2.20 to €135.20.

ZURICH lost ground, but closed above the day's lows after a session in which many investors chose to book profits. The SMI index closed 51.8 lower at 6,891.2.

Among the few blue-chip winners, Alusuisse, due to release 1998 financial data tomorrow, put on SFr4 to SFr1,629. Analysts said they expected a 10 to 16 per cent increase in Alusuisse's net profit. Nestlé, which attracted strong buying from one bank, put on SFr14 to SFr2,522.

Among insurers under pressure, Zurich Allied lost SFr35 to SFr949 and Baloise was SFr24 lower at SFr1,219.

Telecoms carrier Swisscom gave up SFr19 to SFr561 on speculation that the government might soon sell another tranche of its stake in the company.

MILAN reversed early falls to close higher as a burst of short-covering was triggered by the futures market. The real-time Mibtel index closed with a gain of 247 at 22,645.

Shares in Unicredito shot up 30.1 cents or 7.4 per cent to €4.381 on news that the public sale of stock held by its three shareholder foundations could be postponed until mid-April. The share was also in demand after Merrill Lynch began coverage of the bank with an intermediate accumulate and long-term buy recommendation.

Telecom Italia closed 1 per cent higher at €8.06 after falling nearly 4 per cent earlier in the session. The volatility was attributed to uncertainty over Rupert Murdoch's role in Italian digital-pay television and his deal with Telecom's cable and satellite TV business, Stream.

Shares in Giorgio Armani's clothing manufacturer Simint ended 35.3 cents up at a session high of €7.485. The stock was boosted by news that Armani was in talks with French goods group LVMH over a possible alliance.

MADRID returned from negative territory to end 1.4 per cent higher after the robust opening on Wall Street dispelled fears of a run on high-tech shares.

The general index closed 11.72 higher to 857.93 after hitting a 837.69 low.

Blue chips posted solid gains, with Telefónica rising €1.45 to €39.70 and Endesa adding 87 cents at €22.99.

Market darling Telepizza was among the main losers after a downgrade by Merrill Lynch. It plunged 55 cents or 6.8 per cent to €7.53.

HELSINKI fell 1.9 per cent to a 1999 low as Nokia retreated following an overnight run on US telecoms. The Hex index ended 110.60 lower to 5,679.55, with Nokia shedding €4.90 to €110.60.

Disappointing 1998 sales sent Stora Enso down 53 cents to €8.12, dragging the forestry sector 3.3 per cent lower. Stronger-than-expected 1998 operating profits helped co-operative banking group Okobank rise 80 cents to €16.50.

Written and edited by Jeffrey Brown, Bertrand Benoit, Paul Gregan and Mike Scott

Rand weakness hits Jo'burg

SOUTH AFRICA

Shares in Johannesburg continued to lose ground, weighed down by currency weakness and big falls at merger partners Stanbic and Liberty Life. The all share index came off 55.9 at 5,837.5.

With Stanbic down 165 cents at R18.10 and Liberty Life off R10.60 at R92, financials retreated 1.6 per cent to 9,155.5, Industrials fell 1.2 per cent to 6,626.8.

Golds stayed dull on bullion nervousness, losing 1.5 per cent at 912.1.

NZ uneasy on rate uncertainty

ASIA PACIFIC

Extending the recent easier trend, WELLINGTON accelerated downwards with the 40 capital index sliding 62.49 or 2.9 per cent to 2,103.80.

Brokers said light volume of NZ$76m suggested that selling had been relatively modest, but that sentiment had nonetheless taken a turn for the worse. They blamed Wall Street's overnight setback plus uncertainty about the next move for local interest rates following Monday's switch in monetary policy parameters.

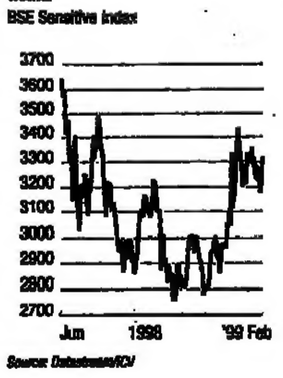
NZ Telecom fell 35 cents to NZ$8.80 and Fletcher Building came off 21 cents at NZ$2.92.

TOKYO was little changed, poised between a stronger dollar and concerns over recent profit downgrades, *writes Julie Hess.*

Moreover, investors were hesitant ahead of tomorrow's meeting of the Bank of Japan, worried about the increase in the government benchmark bond's yield.

The benchmark Nikkei 225 Average hardened 49.74 to 13,952.4, after trading between 13,971.15 and 13,795.61. Other indices trod water, with the more representative capital-weighted Nikkei 300 index dipping 0.17

India
BSE Sensitive index



Source: Datastream/ICV

to 215.65 and the Topix index of all first section-shares off 0.56 at 1,083.09.

Securities houses were the worst performing sector with a 1.7 per cent decline. Nomura dropped 4.4 per cent or Y41 to Y900, after the Financial Times reported that Japan's leading broker had executed Y1,000bn in off-market bond trades for clients.

Nomura denied any illegal activities. Moreover, Daiwa Bank announced that Nomura would be one of the main purchasers of the new shares issued by the bank.

Kawasaki Steel continued Japan's recent series of downward profit revisions, forecasting that its consolidated pre-tax profit would amount to Y5bn compared with the previous forecast of Y22bn. Kawasaki Steel dropped 1.3 per cent or Y2 to Y152.

BOMBAY saw strong demand for index heavyweight Hindustan Lever which leapt 8 per cent as expectations grew that it would post net profit growth of 30 per cent when it unveils 1998 results next Monday. The shares jumped Rs150 to Rs2,033, helping the BSE-30 index to climb 99.78 or 3.1 per cent to 3,307.49.

Tata Engineering and Locomotive Company was up Rs14.70 at Rs198.70, Mahanagar Telephone Nigam put on Rs6.90 at Rs160.40 and Bharat Heavy Electricals climbed Rs17.70 at Rs251.90.

HONG KONG lost 1.8 per cent, hurt by an overnight drop on Wall Street and futures-related selling ahead of next week's Chinese New Year holiday.

The Hang Seng index fell 168.16 to 9,076.33 after hitting a 1999 low of 9,000.24, with investors cautious about the prospects for corporate results in coming weeks.

Among blue chips, HSBC fell HK$3 or 1.6 per cent to HK$185.50, while Hong Kong Telecommunications lost 35 cents or 2.7 per cent to HK$12.70. Cheung Kong gave up HK$1.50 or 3 per cent to HK$47.90 and its affiliate Hutchison Whampoa fell HK$1.40 or 2.8 per cent to HK$48.30.

Shares in micromotor maker Johnson Electric Holdings crashed HK$2 or 9.3 per cent to HK$19.60, which some analysts said reflected profit-taking from a run-up in the stock since the end of January.

SYDNEY closed 1.2 per cent lower, dragged down by internet and telecoms stocks after their US counterparts took an overnight battering on Wall Street.

Telecom company One.Tel slid 45 cents to A$9 while Telstra fell 24 cents to A$8.30. Rival Cable and Wireless Optus fell 11 cents to A$3.69.

Internet group LibertyOne lost 34 cents or 7.41 per cent to A$4.25 while on-line broker E*Trade eased 13 cents to A$1.84.

A rare bright spot was Commonwealth Bank of Australia, which gained 31 cents to a record A$24.81, after it reported plans for a A$650m share buy-back and higher-than-expected second-half profits.

The All Ordinaries index closed 35.9 lower to 2,854.8.

EMERGING MARKET FOCUS

Warsaw seeks new managers

The political turbulence triggered by Poland's ambitious attempts to reform its health and pension systems and reorganise local government has yet to hit the Warsaw stock market, which has provided a 12 per cent capital gain this year.

The increase in the benchmark Wig index from 12,591.1 in mid-January to 14,320 at Tuesday's close almost restored in one month the 15 per cent Polish equities lost in 1998.

Although the Wig had a bad day yesterday, sliding 307.9 to 14,012.1, Poland retains the allure of a market that stands a fair chance of becoming a member of the European Union early in the next decade.

Last month's larger-than-expected interest rate cut of 250 basis points to 13 per cent in the central bank's repo rate, in response to a decline in inflation to 6 per cent, points the way to continued support for the stock market. And so should the weaker zloty, with its potential to enhance companies' export earnings.

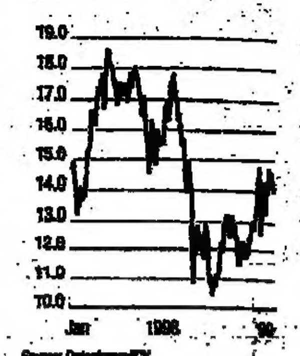
However, the downturn in the foreign exchanges for the Polish currency has coincided with the growth of investor concerns for the political situation. There are also worries that the current account deficit may well top 5 per cent of gross domestic product this year.

"I think there could be interest rate cuts later in the spring, but for the moment monetary policy will be cautious," says Wike Groenenberg from Salomon Smith Barney.

One worry for investors is the quality of Polish management. Criticism of the scant profits listed companies have been reporting for 1998 in spite of a 6 per cent expansion for Polish GDP is increasingly being heard.

Many fund managers are ever more vociferously expressing concern about the way companies on the

Poland
Wig index ('000)



Source: Datastream/ICV

Warsaw exchange, which now has a capitalisation of $24bn, are managed.

Last year Nomura Securities, which has a strategic stake in Impexmetal, a debt-ridden industrial conglomerate that owns several steel mills and an aluminium mill, successfully replaced a management that dated back to communist days. Jacek Krawiec, a young accountant, has been charged with turning the company round.

Merrill Lynch, which has invested in Elektrim, the largest listed industrial conglomerate, has brought in Barbara Lundberg, a US venture fund manager, to run the company in what is a major test case in corporate governance for Poland.

Ms Lundberg's success would provide powerful arguments for the replacement of home-grown managers by those with foreign experience. She comes to the post after several incidents where information important for assessing the value of the company was held back from investors.

The cases led to the resignation of Andrzej Skowronski, the managing director who built Elektrim up from a command-economy foreign-trade organisation specialising in copper to a major player in Polish industry.

Christopher Bobinski